REPORT TO THE PRESIDENT

ON

Foreign Economic Policies

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("Gray Report")

Washington — November 10, 1950

For sale by the Superintendent of Documents, U. S. Government Printing Office
Washington 25, D. C. - Price 40 cents

LETTER OF TRANSMITTAL

NOVEMBER 10, 1950.

MY DEAR MR. PRESIDENT: On March 31, 1950, you asked me to undertake an assignment as your special assistant to make recommendations to you in charting our course in the field of foreign economic policies and programs.

You pointed out that "our basic purpose has been, and must continue to be, to help build a structure of international economic relationships which will permit each country, through the free flow of goods and capital, to achieve sound financial growth without the necessity for special financial aid."

You further stated that "it is now time for us also to look ahead and assure ourselves that our own policies are those which will serve best to reinforce our economic strength and that of the other free nations of the world." You requested me to assist you in your task of determining "the nature, dimensions and significance of this problem" and in developing "the broad lines of policy which in turn must be laid before the public and the Congress." You instructed me to advise and assist in coordinating and stimulating the activities of the various governmental agencies which can contribute to the solution of the problem and to obtain the views of experts and interested groups outside the Government on particular aspects of the problem.

In accordance with your instructions and with the help of a small staff, I proceeded to develop a detailed program of analysis among the appropriate agencies of the Government directed toward adequately defining the problems which faced us and arriving at definite recommendations. I also proceeded to initiate a program for obtaining the views of leading private citizens on a systematic and widespread basis.

These activities were well under way when conditions were drastically changed by the aggression in Korea and the subsequent decisions to build up rapidly the defensive capabilities of the free world. This series of events did not in fact change the basic nature of the problem we were tackling. The paramount problem is not to achieve any specific objective with respect to our total balance-of-payments position but is rather how to make our foreign economic policies serve most effectively our total national and foreign policy requirements.

These events did, however, markedly change the dimensions of the problem. At the same time, they increased the need for effective programing in the foreign economic field. In view of the uncertainties which entered into the picture and the time available to me, it has been impossible to arrive at final judgments with respect to many program matters, particularly those of a quantitative nature.

The report which I am herewith submitting to you outlines in broad terms what are, in my judgment, the major problems now facing this country in the foreign economic field and the general framework of policies and programs designed to meet these problems. In this task I have been greatly assisted by the generous and effective efforts of many Government agencies which have made available the ability and time of numerous staff members to work on specific projects. One evidence of their contribution is tne collection of working papers, over 50 in number, on which many parts of this Report are based. Many top officials have given freely of their time to me and my staff in discussing various subjects in the Report, and I have also discussed the Report or certain sections of it with numerous leading private citizens in various walks of life. The analysis and the recommendations in the Report represent my considered judgment, and they should not be taken as necessarily representing the views of other officials in the Executive Branch.

While I hope that this Report will be of assistance to you in making essential decisions with respect to foreign economic policies, much further work remains to be done within the appropriate departments and agencies to convert this policy statement into an operating program.

It is furthermore necessary to assess the impact of foreign economic programs on our domestic economy in relation to the other requirements of our national policies, including civilian requirements and our productive capacity. In considering the problems falling within my terms of reference I have constantly borne in mind the overriding need for preserving a strong and dynamic economy in our own country and for maintaining the soundness of the dollar with all which that implies. Unless this is done, the objectives outlined in the Report cannot be fully attained.

I am sincerely grateful to you for your constant support and encouragement in this undertaking.

Respectfully yours,

Gordon Gray

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Objectives of Our Foreign Economic Policy

The overriding objective of our foreign policy is to establish a just and lasting peace among nations. In achieving this objective, our policies in the economic, political, military, and informational fields all play an essential role. They must be coordinated and directed toward the central objective, and must be adjusted to changing circumstances. They must all be part of a total policy which permits the strengthening of our own economy.

This country has recognized that our foreign policy objectives cannot be obtained by negative measures. It was essential after the war to restore political and economic stability in the areas disrupted by war. It is now essential to build adequate military strength for the free world. It also remains essential to recognize and offer constructive leadership in meeting the increased need throughout the world for economic progress as a foundation for lasting peace. The contribution of our foreign economic policy has been and is to supply positive measures toward these ends—to help build the economic conditions and relationships needed for the growth of democratic societies able to defend themselves and to improve their living standards.

This Report examines the most important aspects of our foreign economic policy, and analyzes the prospective problems in this field. It suggests the steps that should be taken in the future to ensure that, under the new circumstances, our foreign economic programs continue to support our foreign policy objectives effectively. Some economic questions, which are clearly subordinate to other considerations, are not dealt with here.

In the economic field, as well as in the political field, this country had embarked on the basic outlines of a constructive foreign policy before the hostilities of World War II had ceased. We gave assistance to prevent hardship and stimulate recovery, and we joined in developing unprecedented measures for international economic cooperation. But the obstructions and aggressive designs of the Soviet Union have increasingly threatened the continued success of these efforts. The outbreak of open aggression in Korea illuminated the immediate military danger and demonstrated the need for greater defensive strength in the free world.

The programs needed to build adequate defensive strength among the free nations must be undertaken, and this involves a reexamination of our objectives and capabilities both within our own country and in our foreign programs. But we must not forget that the conflict with the Soviet Union has also become intensified in the economic and political fields. The Soviet Union is desperately trying to capitalize on the swelling social and economic pressures now dominant throughout the world. The free nations can and must hold the initiative in this area through a positive program, aimed at peace and justice, and capable of attracting the understanding and support of peoples everywhere. Without such a program, military strength may become ineffective in the years to come.

In this task, our foreign economic policies and measures play an important role. They will continue to require financial support by the United States Government. Recent developments have made it impossible to prepare firm estimates of program requirements, but these requirements in the future, including loans and grants, should be substantially less than we have been spending for these purposes during the past year. In terms of our own interests and of growing collective strength, the gains will far outweigh the costs, as they have in recent years. Increasingly we will find, as we already are finding, that other countries are more and more able and willing to contribute to the accomplishment of mutual objectives, and our policies should be based upon this expectation.

Economic programs in themselves, however, are not enough, and economic aid as such has an even more restricted role. Continuing dollar subsidies are not a sound basis for our international relations, and our own requirements for economic growth and military strength limit our ability to furnish aid to others. Thus our undertakings in the field of foreign aid must be based upon a careful assessment of the competing demands on our limited resources, and of the relative importance and usefulness of the demands to our objectives. Such programs must be supplementary to leadership on a broader plane, encompassing effective economic, political, and informational policies, as well as military protection.

While we prepare to meet the military threat of Soviet Communism, we must make clear to all peoples that the basic objectives of our foreign policy remain unchanged. Within the United States we must recognize that sound economic statesmanship and measures are fundamental to the achievement of our objectives. Our military programs are entirely defensive. Through them we merely seek to counter the military advantage now possessed by the forces of Soviet imperialism. But in the economic and social field the free nations must maintain the offensive. They must demonstrate that effective use of resources and the establishment of peace and justice can be achieved without the loss of political, economic, and religious freedoms which disappear under Soviet dictators. In that demonstration the achievements and contributions of our own free economic and political institutions can play a major part.

Developments in the Postwar Period

Since World War II, United States policies in the foreign economic field, notably the European Recovery Program, have represented a largely successful exercise of leadership. The United States has provided the critical margin of resources enabling Western Europe and Japan to recover from the destruction and disorganization of wartime and to progress far towards a self-sustaining economic position. Largely as a result of this, political conditions have been stabilized and Communist penetration halted. Directly or indirectly, aid has also been an important factor in alleviating or improving economic conditions in many other parts of the world. World trading relationships have been developing along the lines necessary to enable other countries to make continuing progress on a self-supporting basis.

The growing economic recovery and political stability have been heavily dependent on supplies from the United States, financed in considerable part by direct grants and loans. This dependence was reflected in a sizeable United States export surplus with every area of the world, totalling 29 billion dollars over the four years 1946–49, or almost half of our total exports. The pressing demands for United States goods were largely abnormal, arising from the wartime damage, disorganization, and backlog of demand. Not only did this disorganization involve extreme hardships, but its potential consequences threatened our own security interests.

In the case of Western Europe, an emergency situation called for emergency action. The economic stagnation which followed the war, and social unrest and disillusion which invited Communist subversion and penetration, threatened to undermine the democratic institutions of Western Europe. The European Recovery Program was devised to forestall this possible disaster, by helping to remove the economic conditions which invited it. It was a deliberate use of our economic resources to carry out a basic objective of our foreign policy in a time of great crisis. This it has succeeded in doing.

In many respects the situation in Japan was similar to that of Western Europe. Here was another highly developed industrial nation economically shattered by defeat, and also exposed to Communist penetration. The fact that Japan was occupied by the forces of the United States placed its problems in a different category from those of most of Western Europe, but the effect of our economic aid there was substantially the same.

Furthermore, United States financial aid has indirectly done a great deal to restore and maintain the economies of countries which did not receive aid. During this period every other major area of the world, as well as Europe and Japan, bought more from the United States than it sold to the United States. While our export surplus with non-European areas was paid for in part by the liquidation of accumulated dollar assets, a large part of it was made possible indirectly by the ERP and other aid programs. Some of the dollars which Western Europe received from United States aid went to pay debts or to pay for the goods which Western Europe received from these other countries. These countries were then able to use these dollars to buy goods from the United States.

As recovery progressed, and as Europe and Japan increased their production and exports, the need for grants of dollars from the United States declined sharply. Our export surplus with the world as a whole diminished, falling from an annual rate of 7.6 billion dollars in the first half of 1949 to an annual rate of 2.9 billion dollars in the first half of 1950, and virtually disappeared in the summer of 1950. In fact, most countries in the free world have been able during the past year to reduce greatly or to eliminate their deficits with the United States, and at the same time to improve their own living standards. The industrial countries have also been able to devote a substantial part of their income to investment, in most cases to increase their monetary reserves rapidly, and to return to a more normal pattern of trade with the rest of the world.

By the middle of 1950, it appeared that the productive ability of most Western European countries and of Japan either was already sufficient or would soon become sufficient to make unnecessary a net addition to their own productive resources from outside aid, and that further grants from the United States would become unnecessary by 1952 or even earlier. These countries were becoming able to produce enough goods and services for export to pay for their necessary imports. The major payments problem they were beginning to face was one of finding adequate export markets—particularly markets in which they could earn the dollars required to pay for imports obtainable only from dollar sources. There also remained serious internal problems in some countries: considerable unemployment, the need to compete more vigorously in export markets, and in some cases a dangerous weakness in morale and political cohesion. But these problems could have been solved in most cases without the necessity for further United States grants to these countries.

In contrast to the industrial countries, most of the underdeveloped areas of the world have, in general, shown relatively slow progress in the postwar period. They still face a severe and chronic deficiency in production. In some areas today, foreign payments are more or less in balance, but even where this is the case, chronic poverty, primitive production methods, the ineffective use of resources, and increasing population pressures are so serious as to endanger their internal stability. In political terms, many of these areas are currently subject to intense pressure from internal subversion or the threat of external aggression.

A major obstacle to development in underdeveloped areas has been their long-standing poverty itself, which has made it impossible to produce a sufficient margin over subsistence needs to build for the future. To overcome this obstacle these areas need a flow of capital from abroad substantially greater than they have been receiving. In addition to new investment, the great need of underdevoloped areas is for modern techniques and technical guidance in such basic fields as agriculture, health, resource development, and public service, as well as in industry.

There have also been major obstacles to development unrelated to financing. Administrative machinery and technical skills are grossly inadequate. The inertia of custom and tradition frequently results in a lack of enterprise. Many of the governments are new and inexperienced, and in some cases there exists an unwillingness to take the steps necessary for development within the countries themselves. While these factors limit the rate at which new capital can be absorbed and new techniques learned, they can be gradually overcome.

In recent years we have formulated some promising economic measures with respect to these areas. We are cooperating with other countries in new international programs to aid development. We have provided some capital, and have established a means of providing these areas with increased technical assistance. But these activities have not been pressed with the vigor that the situation requires, and they have not yet been fused into a sufficiently effective program.

Continuing economic progress for the United States, for the other industrialized countries, and for the underdeveloped countries requires the reduction of barriers that have obstructed world trade. While conditions in the postwar period have not permitted as rapid progress in this direction as we would have liked, substantial advances have recently been made. Our foreign aid programs have helped create the conditions necessary for this improvement. Our long-range trade policies have helped to provide the framework of cooperative action needed for its continuation and growth, although certain aspects of our import and domestic policies have been and are inconsistent with this objective. Through the International Monetary Fund, the General Agreement on Tariffs and Trade, and the proposed International Trade Organization, we have played a leading role in laying the basis for future progress. The recent substantial increases in the monetary reserves of important countries have made possible more rapid progress in removing trade discriminations and attaining currency convertibility.

The Impact of Accelerated Rearmament

We have now entered a new phase of foreign economic relations. The necessity for rapidly building defensive strength now confronts this Nation and other free nations as well. This requires a shift in the use of our economic resources. It imposes new burdens on the gradually reviving economies of other nations. Our foreign economic policies must be adjusted to these new burdens.

While it is still too early to measure the exact magnitude of the effects of rearmament, certain basic trends are clear. Our own rearmament program will require us to import strategic raw materials in greater quantities than before. Other nations will also have increased demand for such commodities. The diversion of American productive effort to military defense will reduce the supply of goods for civilian consumption in this country. It will also reduce the quantity of civilian goods which we can ship abroad. This means that our demand for civilian imports from other countries will increase.

In short, we will be paying more abroad for raw materials, and we may be buying more imported manufactured goods. As a result more dollars will be available through trade channels to the rest of the world. The rapid elimination of our export surplus in recent months is a reflection of some of these trends.

A balance between our exports and imports, even including long-term investment, is not, however, the major immediate objective of our foreign economic policy. During the postwar period our aid programs largely made possible the big export surplus. We undertook these programs in order to serve our national interests. In the future, it is desirable and should be possible to carry out our objectives and at the same time to approach a balance in our exports, imports, and long-term investment; but it is the effective carrying out of our objectives, and not the balance itself, that is paramount. Thus the developments in the present period must be analyzed in terms of their effects on our ability to carry out our objectives.

In the case of Western European countries, rising raw material prices and growing scarcities arising from their own rearmament could put heavy pressure on their economies. These countries must continue for a time to increase their exports in relation to their imports in order to achieve self-support. Inflationary prices for imports will increase the burden on their exports.

Moreover, the fact that a substantial portion of Western European resources will be required for defense production will increase import requirements and at the same time tend to reduce the amount of goods which they can export. Western Europe may be caught between the rising cost of its imports and the falling level of its exports, so that its present progress toward economic self-support may be undermined. Furthermore, these trends involve a serious risk of inflation in the Western European countries and may handicap their military effort.

In contrast, many underdeveloped countries are earning more dollars and other foreign currencies as a result of rising demand for raw materials. Rising export prices and incomes, however, create danger of inflation of their internal price levels and thus a danger of increased internal unrest. Moreover, some underdeveloped countries will not, on balance, be more favorably situated. The reduced availability of exports from the United States and other industrial countries whose resources are strained is likely to limit the ability of all underdeveloped countries to obtain goods needed for development. Without cooperative action on the part of both the underdeveloped and the industrial countries, foreign exchange may be used for low priority purposes, as in some cases it has been in the past, and needed goods may not be available. The need for increasing productivity and output is made more urgent by our expanding requirements for supplies which can come only from these areas.

These prospective developments in the rest of the world, together with our own rearmament effort, present grave dangers of inflation and maldistribution of supplies which would adversely affect the

United States domestic economy as well as the carrying out of United States foreign policy.

PROBLEMS FOR THE FUTURE

In the pursuit of the long-run objectives of our foreign policy it has become necessary to emphasize these major goals: (*a*) To help make possible, politically and economically, a rapid buildup in the defense capabilities of Western Europe; (*b*) to help develop additional sources of supply for needed materials; (*c*) to help strengthen the economic and political structures of the free world in general against the intensified pressures of Communist subversion and penetration; and (*d*) to continue laying the groundwork for world trade and financial relationships which will promote progress on a self-supporting basis.

The following appear to be the major problems in prospect for our foreign economic policy:

(1) In the case of Western Europe, the difficulties now in prospect are no longer ones of finding export markets, but of producing sufficient goods and services to meet the new and enlarged military requirements and minimum civilian needs, including the exports necessary for self-support. In the interest of the common defense, the Western European countries can and undoubtedly will make sacrifices by foregoing consumption and investment, but there are limits beyond which they cannot go without drastically undermining their economic health and their political cohesion. A sufficient rate of rearmament will probably exceed these limits, and to the extent that it forces a reduction in their exports, it reduces the only means they have of becoming self-supporting.

(2) It is important to increase the production of the raw materials necessary for defense. It is not enough simply to buy existing supplies—new capital must flow into the raw material producing countries to increase production. Moreover, it is vital not to lose the sources of these needed raw materials to the forces of Communist aggression. Serious dangers are also in prospect with regard to the prices and distribution of primary commodities in the period before measures to increase supplies can become effective. Rapid price increases for many of these commodities cannot significantly increase supplies, but only serve to reinforce the dangerous inflationary pressures which have again emerged throughout the world.

(3) The economic stagnation, political unrest, and extreme poverty of most underdeveloped countries represent a growing threat to the rest of the free world. In general the requirements for adequate

economic development are beyond their internal capabilities—in some cases because of inadequate material resources, but more generally because of insufficient technical and administrative ability and the corrosive effects of poverty itself. Despite great obstacles, it is more important than ever to the security and well-being of free countries that social and economic progress be achieved in the underdeveloped areas.

(4) Despite the measures which will be temporarily required to influence the distribution and prices of primary commodities and to assure the needed distribution of manufactured goods, it is still important to continue developing a system of unobstructed international trade and investment that can maximize output and place the major areas of the world on a sound and self-supporting basis.

(5) Major adjustments are needed in some of our own national policies. Especially in the present period of general shortages, a freer flow of imports would be of general benefit in many ways, and at present there exist unreasonable obstructions to such a flow. Administration of any necessary developments with respect to domestic price, allocation, and export controls must take our foreign programs into account if they are not to impair the progress toward our international objectives. Over the longer run, certain policies with regard to agriculture and shipping have an important and unfavorable impact on our foreign economic relations.

(6) There is cause for concern regarding the morale and outlook of peoples in many parts of Western Europe and the underdeveloped areas. Foreign economic policies and programs must be part of a total policy which can generate greater unity, hope, and support for freedom now, while providing the basis for gradual economic improvement in the future.

These various problems are clearly interrelated. From an economic standpoint they all involve the most effective use of the available resources of the free world to support adequate military security, to increase output, to obtain the needed distribution of output, and to develop an international trading and financial pattern which can efficiently serve these goals.

Thus the solution of the problems of Western Europe and Japan—adequate supplies of food and raw materials, adequate markets (both dollar and nondollar) for exports of manufactured goods, a satisfactory relationship between import and export prices, sufficient total resources to meet the needs of security and stability—is closely related to the development of underdeveloped areas from which many of

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their raw materials must come, to the achievement of political stability in overseas countries with which Western Europe has responsibilities or close connections, and to United States trade policies.

Similarly, the underdeveloped areas must obtain from the industrialized countries supplies of capital, manufactured goods, and technical aid to achieve needed increases in output and living standards, and assistance in preserving their national independence.

The economic and security interests of the United States itself in the rest of the world are affected not only by economic, political, and social conditions in other countries but also by certain specific requirements—adequate supplies of imported materials essential for security, and of other goods which can contribute to our living standards; self-supporting markets for the output of our farms and factories which the rest of the world needs and which we produce efficiently and in abundance; sufficient ability and will on the part of all free nations to share in the common defense and to participate in an effective system of economic relationships.

Recommendations

Our foreign economic affairs have reached a stage when major policy decisions must be made. The recommendations of this Report are intended to assist in this task. Some of them call for legislative action, others involve only administrative action or reaffirm present policies. They are related to one another, and are designed to equip this country to pursue an economic policy abroad that would best contribute to the attainment of our foreign policy objectives. It should be emphasized again that the latter requires much more than foreign economic measures, which by themselves cannot be effective. It requires adequate military defensive strength, sound political and diplomatic policies, a forceful informational program, and the continual strengthening of our own economy.

A. What should be done about aid to Western Europe and Japan?

The urgent need for rapidly creating defensive strength in Western Europe, as part of a joint effort to provide mutual security, forces a postponement of the time when the United States, consistent with its own interest, can end economic assistance. Adequate rearmament—within the time required by the current situation—will require, not only extensive supplies of military equipment from the United States, but also a substantial diversion of Western European output from other uses and some increases in imports. In view of the mutual interest in achieving security, the Western European countries should be willing to undertake diversion of resources from consumption and investment to the extent possible.

The recent marked improvement in the trade and reserve positions of Western Europe reflects, to some extent at least, the favorable effects on their position of developments in the United States, while they have not yet felt the unfavorable impact of their own accelerated rearmament. It seems clear that a sufficiently large and rapid growth in military strength is beyond the capacity of Western European countries solely through their own efforts or with aid only in the form of military equipment.

Provided that the Western European countries undertake a genuinely adequate defense effort, we should be prepared to extend dollar aid to meet the short-run burden of their own military production, insofar as it exceeds the sacrifices which it is within their ability to make. Western Europe is the most critical area from the standpoint of our own security and the security of the free world.

We should also recognize that, unless Western European exports and earnings are maintained to the maximum extent consistent with accelerated rearmament, Western Europe's inability to support itself and consequently its need for economic aid will be unnecessarily prolonged. At the same time, it is important that the Western European countries utilize their total resources more fully and continue to press toward closer economic and political relationships.

With these considerations in mind, it is recommended that:

1. To facilitate the required expansion of Western European defenses in accordance with joint plans, the United States should be prepared to continue supplying aid, apart from military equipment, for another 3 or 4 years beyond the present time. The needed amount of aid depends upon the rearmament effort actually undertaken by individual countries, and its total impact on their economies, these factors being worked out primarily through the economic and production planning agencies of the North Atlantic Treaty Organization.

2. Aid to Western Europe should be planned on the basis of an over-all assessment of requirements rather than on a specific project basis. It should be administered separately from aid in the form of military equipment shipped from the United States.

3. Such aid should be administered on a basis that will contribute to the fullest possible use of European resources, encourage intra-European trade, and help to integrate the European economic effort. It is recommended that the United States continue to support the development of an effective intra-European payments mechanism. At

least for the time being, it should continue to allot to the European Payments Union a portion of the dollar aid it extends to Europe.

4. In the joint planning of security programs, and specifically in helping to increase the defensive strength of Western Europe, adequate consideration should be given to the importance of a high volume of European exports, which are the only means for achieving self-support, although the internal burden of rearming must obviously have an impact on the levels of consumption and investment.

5. In view of the special importance of the pound sterling in world trade and of a strong position of the United Kingdom, the needed rate of increase in British military expenditures should be achieved by means that avoid seriously worsening the external position of the United Kingdom.

Because of its predominant industrial position in the Far East, the potential contribution of a stable and democratic Japan is extremely important for economic growth, the improvement of living standards, and the maintenance of peace in the region. During the last year, with the help of United States Government aid, Japan has been able to add substantially to her dollar reserves, and at the same time has experienced a continued improvement in her balance-of-payments position. This process should continue during fiscal year 1951 with the United States aid already appropriated. Unused resources are still available to permit further increases in output for both exports and domestic use. By fiscal year 1952, with a continuation of present favorable trends, Japan may be self-supporting and may possess substantial dollar and possibly commodity reserves, although living standards will still remain below the prewar level. It is recommended that:

6. Further appropriations for Japanese aid should be carefully considered and measured against the effect of the favorable circumstances brought about by current developments, and also in the light of other recommendations in this report that would increase Japanese export opportunities. However, should Japan for any reason prove unable to increase production for export, it might need external aid.

B. What should be done about underdeveloped areas?

The need for economic development and progress in these areas becomes daily more pressing, not only for their own welfare, but for the security and the well-being of all the free nations. The process of stimulating development is more complicated and slow than that of assisting recovery in developed countries, and there are limits to the capacity of underdeveloped countries to absorb capital. Wide variations in local internal conditions, as well as in resource potential and in vulnerability to aggression, require diversity in method and flexibility in administration. Each type of stimulus—private investment, public loans, technical assistance, and grants—has a significant role to play.

The following recommendations are intended to increase the scope and improve the effectiveness of these forms of assistance. Taken together, they are intended to constitute the outlines of a total program of development assistance that is both possible and necessary to achieve the objectives of United States foreign policy.

7. Private investment should be considered as the most desirable means of providing capital and its scope should be widened as far as possible. It normally carries with it the technological and administrative skills which are an essential ingredient for effectiveness. There should be constant reevaluation of the role which it can play and the burden of public lending should be correspondingly adjusted. Further study should be given to the desirability and possibility of promoting private investment through tax incentives, in areas where economic development will promote mutual interests, but where political uncertainty now handicaps U. S. private investment. The possibilities of measures to improve the United States market for sound foreign dollar securities should also be studied. The following steps should immediately be taken, although the uncertainty of their effectiveness in many areas must be recognized in the light of present world conditions.

(*a*) The negotiation of investment treaties to encourage private investment should be expedited.

(*b*) The bill to authorize Government guaranties of private investment against the risks of nonconvertibility and expropriation should be enacted as a worthwhile experiment.

8. Under present conditions a heavy reliance on public lending must be recognized as essential for an aggressive development program. This will require continued vigorous efforts by the International Bank for Reconstruction and Development, supplemented by the Export-Import Bank, and coordinated with effective technical assistance activities. Their combined efforts should aim at a net outflow of capital to underdeveloped areas in the range of 600 to 800 million dollars a year, of which half or more should be supplied by the International Bank from sources other than the United States Treasury. With respect to United States Government lending, the following steps are also needed:

(*a*) The lending authority of the Export-Import Bank should be increased from the present 3½ to a total of 5 billion dollars, in order to make advance planning effective.

(*b*) A general policy of permitting United States loans to be spent outside as well as within the United States should be adopted. In this way, loan recipients can buy goods wherever they are cheapest, and other industrial countries will have an opportunity to expand exports and dollar earnings if they are sufficiently competitive. This would also be in the interests of the United States; it would tend to help relieve inflationary shortages at the present time, and in the longer run to support export markets for United States goods which are likely to be most readily available.

(*c*) In selected cases loans should be permitted to finance some of the local costs of development projects even though these costs do not involve imports and therefore do not directly require foreign exchange. Such local costs frequently cause an indirect foreign exchange drain, which may handicap or prevent successful development.

9. In some cases, grants may appropriately be used for development and technical assistance, where development programs urgently needed from the standpoint of United States objectives cannot be soundly financed by loans, and where grants will be an effective spur to economic development. Furthermore, our present technical assistance programs in underdeveloped areas should be expanded in scope and made more effective. The United States therefore should make further limited funds available for a program of grants for technical assistance and development. It seems probable that a needed, feasible, and effective program would require funds of up to about 500 million dollars a year for several years, apart from emergency requirements arising from military action. This compares with present funds of about 150 million dollars a year for these purposes.

10. The administration of programs to stimulate development in underdeveloped areas—including loans, technical assistance, grants, and measures to encourage private investment—should be much more closely coordinated than is now the case.

C. What should be done about the procurement and export of goods in short supply?

The United States is a net importer of many minerals and other commodities which are vital to our national security and our economy, and which are produced predominantly in the underdeveloped areas. Rearmament programs here and abroad greatly increase the requirements for these commodities in the face of supplies which are already in many cases inadequate. The recently enlarged stockpiling program will impose further heavy pressure on world supplies. An unchecked scramble for supplies and the inevitable effects on prices would have serious consequences for the rearmament programs, for our own economy and those of friendly nations. It would adversely affect the balance of payments positions of many Western European countries and Japan, and would introduce an element of instability into the economies of exporting countries. Exports of manufactured goods are also likely to be inadequate to meet all demands, and measures may be required to see that the high priority needs of friendly nations are met. It is recommended that:

11. In addition to necessary and properly administered domestic measures within the United States, methods for international collaboration should be promptly established for guiding supplies of scarce materials among the free nations in the manner best calculated to contribute to the common defense.

12. In administering such export controls as may be necessary, adequate steps should be taken to assure the delivery of goods required by other countries for purposes that support broad United States interests. Cooperative action in assuring a flow of goods needed to support common objectives should be developed with other countries.

13. Efforts should be intensified to effect a rapid expansion in the output of scarce materials, not only through the provision of capital funds and equipment, but also through procurement activities such as long-term contracts.

D. What should be done to promote our international trade and financial objectives?

We are working toward the ultimate goal of a peace which rests upon the firm foundations of an expanding world economy. It is, therefore, important that we continue our efforts to encourage world trade and capital investment throughout the world. Only in this way can the nations of the world achieve rising standards of living through sound and self-supporting economies. Despite the restrictions on trade and payments, resulting from persistent dislocations and government policies, or which are likely to become necessary under the strain of rearmament, it is still possible and necessary to make progress in the direction of a system of multilateral and nondiscriminatory trade.

We must, therefore, continue to work for such a system. We must try to establish an adequate system of international payments. We should encourage other countries to adopt the necessary monetary and fiscal measures which can assure sound currencies and obviate the need for direct trade restrictions. We must make sure that our own house is in order—that we have eliminated unnecessary barriers to imports, and that our policies in such fields as agriculture and shipping are so adjusted that they do not impose undue burdens on world trade. In addition, our intensified need for goods in the short-term future makes it desirable to remove barriers to imports as far as possible in order to augment supplies and alleviate upward pressure on prices.

The United States occupies a central position in world agricultural trade, both as an exporter and as an importer. Our policies in this field are of vital concern to other nations. Similarly, as a major maritime nation, our policy with regard to shipping subsidies directly affects the ability of other maritime nations to earn dollars in international trade. In both cases conflicts tend to arise between considerations of domestic and of foreign objectives.

For these reasons, the following recommendations are made:

14. The United States should continue to work for the elimination of discriminatory trade and exchange practices through the General Agreement on Tariffs and Trade, the Reciprocal Trade Act, and the International Monetary Fund. The United States should also become a member of the International Trade Organization.

15. The United States should consider the eventual desirability of assistance, such as stabilization credits, to permit convertibility of currencies for current account, notably the pound sterling. But such credits should not be granted until all requirements for convertibility, with the exception of adequate reserves, have been met. Neither should such credits be extended unless convertibility will be accompanied by a reduction of trade discriminations.

16. With respect to our own import policy we should:

(*a*) Continue to seek further general tariff reductions under the Reciprocal Trade Agreements Act, renew the Reciprocal Trade Agreements Act for a period of four years, and continue efforts to assure that obligations mutually undertaken are carried out.

(*b*) Adopt, as an emergency measure, temporary legislation to permit temporary unilateral reductions in specific tariff rates on commodities which are scarce and when conditions of inflationary pressure exist.

(*c*) Reduce unnecessary and unreasonable regulatory and procedural barriers by administrative action and by passing the proposed Customs Simplification Act.

(*d*) Initiate as soon as possible, through the Tariff Commission, a study of the feasibility and desirability of a general tariff reclassification, and to make recommendations concerning proper legislative and administrative action.

(*e*) Repeal existing legislation which requires, in Government procurement, discrimination against imported goods, and in the meantime reduce the impact of such legislation by administrative action.

17. With respect to our own agricultural policies we should, over the long-run, attempt to modify our price support system, and our methods of surplus disposal and accumulation of stocks, in ways which, while consistent with domestic objectives, will be helpful to our foreign relations. In the meantime we should:

(*a*) Eliminate as soon as possible import embargoes imposed for other than sanitary or similar reasons, and in the interim apply their restrictions in a less rigid manner.

(*b*) Not encourage increases in the domestic production of crops which have to be protected not only by quotas and tariffs but also by direct subsidies to producers.

18. With respect to our shipping industry, we should limit the use of Government subsidies or other protective measures to the amounts necessary to maintain the operation of shipping facilities required for national security. The United States should negotiate with other governments to remove cargo preferences and other similar types of discrimination.

E. How should our foreign economic programs be administered?

It is continuously necessary to relate the use of resources required by foreign economic programs to other United States needs, and to the capacity of our economy. We must not lose sight of the fact that our economic health is itself vital to attaining the objectives of the free world. In the critical period ahead, when United States resources will be severely strained, United States aid must be channeled to those areas and for those purposes where reasonable performance in the political and economic fields can be achieved. It is important, from this standpoint as well as from others, to develop as far as possible, a cooperative and multilateral approach to foreign programs, notably through the United Nations and associated organizations. In the case of some programs, such an approach may be essential for accomplishing the basic purpose. We should recognize that other countries have contributed and will increasingly contribute to the achievement of objectives mutually shared.

It is also important to improve our own methods and organization for carrying on foreign economic programs. We need a high degree of continuity and consistency in legislative and administrative action, and we need a better organization within the Executive Branch. As the importance of our foreign economic policy has grown, its complexities have increased. Loans, grants, technical assistance, the production and procurement abroad of raw materials for defense, and measures to influence the international flow of goods are all closely related. At the present time, the administration of these various aspects of our foreign economic policy is scattered throughout the Government. While foreign economic policy is a part of our total foreign policy, and the basic decisions must, of course, be made at the highest level, greater efficiency and effectiveness can be achieved by more administrative centralization. (This Report does not attempt to deal with the problem of coordination at broader policy levels, or the relationship of various mechanisms which are now in existence or under discussion for this purpose.)

For these reasons, it is recommended that:

19. Assistance activities should in general be initiated only when requested by other governments and when the latter are prepared to make appropriate contributions and provide cooperative effort.

20. Grants and loans should be made conditional upon agreement as to reasonable standards of performance, and should be used to help achieve these standards. It should be recognized that these conditions will frequently have to relate to broad internal measures and policies.

21. The United States should help to strengthen appropriate international and regional organizations and to increase the scope of their activities. It should be prepared, insofar as practicable, to support their activities as the best method of achieving the economic and security objectives which it shares with other free nations.

22. An agency or organization should be established within the United States Government to administer foreign economic programs. Its functions should include the administration of all grant and technical assistance programs (except the provision of military equipment) and the administration of other related activities, such as the stimulation of needed materials production abroad. It is also necessary to follow through on present efforts to improve the machinery within the Government for coordinating operations in the foreign economic field with over-all foreign policy.

I. The Significance of Foreign Economic Policy

The overriding objective of our foreign policy is to establish a just and lasting peace. In achieving this objective, our policies in the economic, political, military, and informational fields all play an essential role. This Report undertakes a restatement of the complex problems we face in the field of foreign economic policy, and offers some suggestions for an approach to their solution. It is based on a recognition that a sustained security effort will be necessary over a period of years.

The objective of our foreign economic policy has been, and is, to encourage among the nations of the free world those economic conditions and relationships essential for the development of stable democratic societies willing and able to defend themselves and raise the living standards of their peoples. These objectives are to the benefit of all peoples; their national interests are bound up with our national interests; our security and well-being are clearly connected with their security and well-being. Neither we nor they can live alone or defend ourselves alone. This fundamental unity of interest underlies our efforts both to achieve long-term progress and also to meet the immediate necessities presented by Soviet aggressive designs.

Immediately following World War II this country, motivated by the hope for a new and peaceful era in international relations, participated wholeheartedly in efforts, beginning with UNRRA, to assist peoples everywhere who suffered from the hardship and devastation of war. Increasingly, however, we have been forced to recognize, as the dominant factor in world affairs, the deterioration of relations between the free world and the Soviet Union. We have acted on the principle that this underlying conflict has been political in the broadest sense. The nature of United States measures to resist the threat of aggression in vital regions has been predominantly economic and political rather than military. In actual experience, where our economic and political policies have been effective, as in Western Europe, we have gained ground. Where they have been ineffective, as in parts of Asia, we have lost ground. It is in the economic and political fields that the major progress has been made or defeats suffered.

The recent aggression in Korea, however, has greatly intensified the awareness of the military threat presented by Soviet power and of the need for creating greater defensive capabilities in the free world. This has presented our country with the necessity of undertaking a rapid military build-up and of reevaluating the priorities to be assigned to the several objectives of our national policy. The potential consequences of underestimating the military threat are obvious, and the military programs needed to meet it must be undertaken. But military strength, while necessary, is not enough. While recognizing the need for a careful husbanding of our resources, we will make a disastrous mistake if we neglect those elements of a positive economic and political program without which, in the years to come, military strength might become ineffective. If we pursue such a program, growing economic strength and cohesion among peoples who share our ideals will provide an everwidening basis for peace and progress.

Basic to the success of our total foreign policy, and economic policies as well, is the urgent need to win or strengthen support among peoples everywhere for the international objectives shared by the free world, and the ideals which underlie them; and, at the same time, to develop our own understanding of other peoples. This country has probably never participated in so complex and difficult a task. It is the area in which we have been and are now the weakest.

A realistic appraisal of the attitudes of peoples in much of the non-Soviet world would indicate at best an incomplete understanding and correspondingly inadequate support for our objectives. We have often failed to adjust or to translate our purposes and actions into the context of their major interests—of the issues as they see them. The fact that many present governments may at the moment lend us their support should not deceive us regarding the extent of this basic weakness. In many areas of the world and among large groups of people, the Soviet Union is making a desperate effort to capitalize, even though cynically and with false promises, on the swelling social and economic pressures now dominant throughout the world. We must hold the initiative in this field; a persistent application of the principles of our own free and democratic society can provide the only durable answer.

This purpose demands a positive program, aimed at a secure peace, galvanizing the hopes and efforts of the peoples of the free world, and capable of being translated into terms and issues which have meaning to them. Our greatest advantage is that we can pursue such a positive program with honesty and conviction, on a basis of mutual benefit, and that our actions can support our words. In this approach, economic betterment must obviously have a central place, but since results can accrue by and large only over a considerable period of time, the immediate need is to generate hope and a promise for the future that carries conviction of fulfillment.

Economic programs, however, cannot by themselves suffice. There are important preconditions with respect to the internal policies of the countries involved and to our own policies. We must generally operate with and through existing governments, handicapped in some cases by inexperience or other weaknesses, and in other cases by traditional political factors antecedent to the present world crisis. In helping to break the vicious circle of indigence, illiteracy, and unrest, economic programs can contribute; but leadership on a broader plane is essential and must encourage inexperienced governments to shape the policies necessary for political cohesion and effective economic development, and to develop the administrative machinery to carry out these policies.

The role of dollar aid as such is therefore limited. A sound structure of international economic relationships cannot rest on dollar subsidies. These should be viewed as essential supplements, in specific cases, to policies designed to develop the unity of political purpose, the attitudes, and the trading and financial relationships that can provide a continuing basis for progress along sound economic lines. Where they do not serve these purposes, mere dollar subsidies may do more harm than good: they may perpetuate maladjustments, reduce efficiency and incentives, and intensify social cleavages within receiving countries. Dollar aid is a catalyst and not a sustaining fuel. It must be accompanied by a demonstration of self-help, and of the possibility for accomplishing the objectives in mind.

The role of dollar aid is, in any case, limited by our own requirements for economic growth and military strength. The ability to make effective use of our total resources and to maintain the dynamic nature of our economy will be severely tested in the long-term struggle ahead. We must therefore make a continuing evaluation of the relationship between our commitments and our capabilities. As success is achieved in broadening the unity of purpose, based on mutual interest among free peoples, we may reasonably expect a greater sharing of the burden of security and development requirements. Where this unity is now lacking and where there is no willingness to participate adequately in the common effort, the difficulty is likely to be in the realm of ideas and values, or of internal policies, rather than in any economic capacity. Where economic deficiencies are a major element of the difficulty, however, an investment in aid now may pay large dividends in growing collective strength.

In economic terms, the long-range test between Soviet Communism and the non-Communist world will center on their relative success, not only in protecting, but also in efficiently utilizing and developing the economic resources available to them. This, then, should provide a keynote for our foreign economic policies. The design and implementation of our economic policies must be worldwide in scope and based on maximum international cooperation. The problem is not the viability of one area or the impending crisis in another, viewed as isolated geographic phenomena. There are fundamental economic interrelationships among the various areas of the free world which are paralleled by similar relationships in the realm of ideas and of political cohesion.

Since we propose to proceed on a broad basis of mutual interest, it is important to develop insofar as possible a cooperative and multilateral approach. The European Recovery Program, the North Atlantic Treaty, and the United Nations' action in Korea represent major steps forward, and the lack of such an approach in parts of Asia has been a major drawback. We should look forward to a strengthening of the activities of the United Nations and other existing international agencies, and to the development of supplemental mechanisms for the cooperative handling of regional development or commodity problems.

Of equally vital importance is the need, in United States foreign policy and economic programs, for achieving both continuity and consistency—not only their substance but also their appearance. To attempt to plan, program, or operate on a year-to-year basis—or to appear to do so—is a guarantee both of reduced effectiveness and of greatly increased eventual cost in the pursuit of our objectives. The issues are not temporary or periodic, and they are not susceptible of solution in the short run. At the same time, flexibility of administration must be maintained so that, with limited resources, assistance can be directed where it can produce results. Moreover, there are important contributions and adjustments which we must make, in terms of our own policies, as a necessary share in the common effort.

To pose the economic problems of the free world and to recognize their complexity should by no means engender a feeling of pessimism or futility. Their solution, and the achievement of adequate security, requires cooperative action to an unprecedented degree, based on a growing unity of purpose and understanding. This in turn requires a continuation of imaginative United States leadership, fully appreciative of the psychology of other peoples and exercised with continuity and consistency. But we have profound advantages on our side. Our material resources, if prudently used, are adequate. We have strong allies united to us through a sharing of the fundamental ideals and objectives of free men. These are the ideals and objectives which have a magnetic appeal to all peoples—even those behind the Iron Curtain. If properly presented, they can become an irresistible moral force with which the constructive work of building a secure peace can proceed.

II. Postwar Economic Trends and the United States Balance of Payments

A. Developments Up To the Aggression in Korea

During the years since the end of the war, economic recovery and political stability throughout the free world have been heavily dependent on supplies from the United States, financed in considerable part by grants and loans. These grants and loans made possible an important increase in the total goods and services available to other countries, over and above what they would otherwise have been able to buy and produce. This increment was necessary to further the objectives of our foreign policy, particularly in recent years to build up economic and political strength in friendly countries.

The extent to which the rest of the world has, on balance, drawn on United States production is indicated by the size of our export surplus of goods and services. In the 4 years 1946–49, this surplus totaled 29 billion dollars, excluding 3 billion dollars of our net receipts from investment income—almost half of total exports. Government grants accounted for about 14 billion dollars of this total and government loans for another 8 billion dollars. Most of the remainder was financed by the liquidation of foreign gold and dollar holdings and by United States private gifts and investment. In 1949, grants alone slightly exceeded our 5 billion dollar net contribution of goods and services (see appendix, table 1).

This net contribution by the United States provided the critical margin which enabled Western Europe and Japan to move toward a self-sustaining status. They achieved a measure of stability in their political conditions, brought inflation under control, made good the destruction and disorganization of wartime, and improved and increased their productive equipment. As their productivity rose, they expanded their exports and their export capacity.

Despite the fact that United States Government assistance was directed primarily toward Western Europe, little more than half of the United States export surplus was with Western Europe; every other major area of the world imported more from the United States than it sold to the United States—in contrast to the prewar situation when

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United States import surpluses with some areas supplied dollars which helped to finance the United States export surpluses to other areas, notably Western Europe. The export surplus with non-European areas was financed partly by the liquidation of assets accumulated during the war, and in a few cases, such as Japan, the Philippines, and Korea, by direct aid from the United States. In large part, however, it was made possible indirectly by the European Recovery Program and other programs. Other countries sold goods to Western Europe for which they were paid in dollars and they received some repayment of debt in dollars. Thus, our aid to Western Europe has been an important factor in assisting the economies of many non-European countries as well (see appendix, tables 2 to 7).

It is now clear that the last year has marked a major turning point in the need for massive United States aid for economic recovery purposes and in the United States balance-of-payments position. This is indicated by the great progress made by Western Europe and Japan, and the extent to which other areas—notably Latin America, Canada, and the sterling area—have improved their balance-of-payments positions. It is also indicated by the marked decline in the United States export surplus. This dropped from 7.6 billion dollars (expressed in annual rates) in the first half of 1949, to 4.9 billion dollars in the second half, and to 2.9 billion dollars in the first half of 1950, and virtually disappeared in the summer of 1950. This decline resulted mainly from a fall in United States exports, as other countries tightened restrictions on imports of United States goods, devalued their currencies, and increasingly found other sources for their requirements. Most countries in the free world have been able during the past year to sustain a sharply reduced import surplus from the United States while at the same time improving their own living standards. The industrialized countries, and some others as well, have also been able to devote a substantial part of their national incomes to investment.

Furthermore, there has been rapid progress, particularly since devaluation a year ago, toward restoration of the pattern of world trade which is required for the economic health of the industrialized countries. Before the war Western Europe financed its chronic trade deficit with the United States by net earnings of dollars in its trade with other areas and from its net income on investments. These areas—notably the sterling area, the overseas dependencies, and Latin America—in turn had surpluses in trade with the United States. During the last year these areas have returned to a surplus position in their trade with the United States, and it was again becoming possible for Western Europe to earn a substantial amount of dollars in its trade with third areas.

As things stood before the Korean crisis and decisions to build up defenses, it could be said with some confidence that by 1952 or earlier, Western Europe as a whole, and Japan, would be able to produce for export sufficient goods and services to pay for necessary imports, and that they would no longer require United States economic aid to obtain a *net* addition to their total resources. There remained, however, prospective difficulties in finding adequate markets for European and Japanese exports and, in particular, in finding sufficient markets in which goods could be sold for dollars (or for currencies convertible into dollars) in order to finance essential imports obtainable only from dollar sources. The marketing problem could have been solved through the combination of an improved competitive position for Western Europe and Japan, an increase in United States imports, and a larger flow of United States capital not tied to United States exports.

In contrast, most of the underdeveloped areas of the world, those with very low per capita incomes, faced a continuing and serious deficiency in total economic resources. By and large, their problem was not to find markets for their exports, but to find resources sufficient not only to produce for export but to provide a tolerable standard of living and a rate of investment that would give some promise for the future. Even where their external payments and receipts might indicate a relatively balanced exchange position, this was overshadowed by the ineffective use of available resources, chronic poverty, increasing population pressure, primitive production methods, or disease and unrest. For many of the underdeveloped areas, notably south and southeast Asia, the standard of living and the rate of economic development that could be supported from their own resources, with *existing* methods of management and utilization, were so low as to endanger internal stability.

Thus although, by the middle of 1950, it seemed clear that the major readjustment of the United States balance of payments from its distorted postwar position had already occurred, serious and persistent problems remained: The need for adequate markets and some continued competitive weakness in the case of Western Europe and Japan; the low levels of output and exports in underdeveloped areas, and their consequent limited ability to finance imports; and the difficulties in selling in the United States market and thus in financing needed imports from the United States.

B. The Impact of Accelerated Rearmament

Developments of recent months have set in motion certain forces which basically affect economic trends and increase the need to improve the use of resources in the free world. These are (*a*) the decision to accelerate rearmament in the United States and in Western Europe, (*b*) the increasing tension—military, economic, and political—in important areas of the world, (*c*) the impending shortages in major raw materials and durable goods, and (*d*) the probability of general inflationary pressures arising from the increase in armament expenditures and, especially, of sharp increases in raw material prices. It is also clear that these factors will have a widely varying impact on different countries.

While quantitative evaluation must await decisions regarding the size and rapidity of the military build-up, several trends affecting the United States balance of payments are clear. These stem largely from the increasing shortages which will occur in the case of many goods. First, United States imports of raw materials will rise faster than was earlier expected—in dollars more than in volume, owing to price increases. Second, the United States demand for imported manufactured goods will expand owing to shortages in this country, although shortages elsewhere may prevent actual imports from rising correspondingly. Third, availability of United States civilian goods for export will decline, thus raising serious problems of export distribution. Finally, the pressure from security programs on United States resources will intensify the need for expanding foreign supplies and should make evident the advantages of encouraging imports.

As a consequence, the necessity for large United States grants directed primarily toward *recovery* is nearly over, except for possible emergency situations. Even if United States economic aid were to be terminated according to previous plans, notably in the case of ERP in 1952, it is probable (because of expanding United States demand for imports and rising prices) that the total dollars available to other countries for the next few years would exceed the amount of dollars actually used by those countries during the last year, not counting dollars they used to increase reserves.

The urgency of pursuing certain objectives, however, has also been intensified. It has become necessary to (*a*) help make possible, politically and economically, a rapid building-up in the defense capabilities of Western Europe; (*b*) help strengthen the economic and political structure of the free world in general against the intensified pressure of Soviet Communist penetration; and (*c*) help develop additional sources of supply of needed materials. The new situation raises the question whether the prospective supply of dollars, and their prospective destination, are adequate to serve the objectives of our foreign policy.

It is clear that the *distribution* of dollar earnings among the various countries will not be adequate to serve this purpose. The outlook for Western Europe has been changed substantially from that which prevailed prior to the Korean conflict. In view of rising dollar earnings in third areas, it is likely that Western Europe will find expanding markets available; but the pressure of rearmament raises doubts concerning the adequacy of its total economic resources, its ability to expand exports sufficiently, and its ability to preserve satisfactory terms of trade (i. e., the relation between import and export prices). Some underdeveloped countries will remain in an unfavorable exchange position. Emergency situations, such as that in Korea, may create extraordinary requirements for support and rehabilitation. Conversely, many raw material producing countries will face problems in the use of their markedly increased dollar receipts.

Furthermore, the *total* supply of dollars from normal sources—mainly United States imports of goods and services and private investment—is not likely to be adequate to serve the purposes of United States foreign policy. In the long run, a rate of progress in underdeveloped countries adequate to serve these purposes will require public investment abroad in the form of sound loan programs yielding a future return. In the short run, further grant assistance will be required (*a*) to make possible a rapid build-up of Western European defenses and (*b*) in limited amounts to expedite expansion of production in some underdeveloped areas.

The disparity in trends among different countries can be greatly enlarged by excessive price increases on goods entering into international trade. Lagging production in many raw material producing countries is already a serious problem; under the impetus of rearmament certain raw materials will be under greater pressure of demand. A substantial deterioration in Western European and Japanese terms of trade (i. e., an increase in the prices of their imports relative to the prices of their exports) could undermine the further approach to self-support, involve serious risks of internal inflation, and handicap the military effort itself. The tendency towards inflation has been reinforced throughout the world. At the same time there is the problem of obtaining a proper distribution of both raw materials and manufactured goods, in the face of general shortages and a pattern of foreign exchange earnings among different countries which does not necessarily match the priorities of requirements for defense and development.

To a considerable degree, the sequence of events will be determined by United States policies. The ability of the Western World to achieve both adequate military defenses and continued economic growth will depend in large part on United States action. Increases in output in other areas can be achieved rapidly only with adequate provision of capital and investment goods from the industrialized countries. The course of the internal United States price level will be an important influence on the world price level and, in particular, on the payments position of those areas, such as Western Europe, which must obtain substantial quantities of goods from the United States. Since the United States is the major consumer of many raw materials, it can, through cooperation with other consumers and producers, assist proper channeling of these goods and restrain rising prices during the period of rearmament. Similarly, through cooperation with other exporters of manufactured goods, it can influence the type and destination of exports to accomplish high priority purposes rather than permit a dissipation of dollar assets on nonessentials.

Thus recent international developments and the intensified struggle with Soviet Communism have made essential a continued effective and vigorous programing and administration of our foreign economic policies. The central problem of United States foreign economic policy has never been the export surplus or how to eliminate it. Following the war we largely financed this surplus by undertaking certain programs with calculated objectives which have proved eminently good investments. In the future, and apart from military items, it is desirable and should be possible to carry out our objectives and at the same time to approach a balance in our exports, imports, and long-term investment; but it is the effective carrying out of our objectives, and not the balance itself, which is paramount.

III. Western Europe, the Sterling Area, and Japan

A. The Present Position of Western Europe

Developments to date indicate decisively the fundamental correctness of the concept and scope of the European Recovery Program. The recovery in agriculture, industry, and trade; the restoration of living standards combined with accelerated investment in plant and equipment; and the decline in Communist influence could not have been achieved by Western Europe in the absence of large United States aid.

The basic strength of Western Europe lies in its great industrial capacity—much larger than that of Russia and its satellites—the advanced skills of its workers, and the underlying strength of its moral and cultural traditions. Its present weakness lies, militarily, in inadequate defenses; politically, in apathy or weak morale in some countries; and economically in the extreme dependence of the national economies, taken both individually and collectively, on imports from other parts of the world.

This dependence on imports existed before World War II, but its effects have been greatly magnified by developments during and since the war—mainly the loss of investment income and of Eastern European trade, and the somewhat worsened terms of trade. The net result is a serious and continuing uncertainty in the trading position of Western Europe and a significant lowering, compared with prewar, in the proportions of total output which now can be devoted to consumption. At the same time, the expectations and group pressures of the peoples of Western Europe for greater well-being have increased, as indeed they have throughout the world.

The progress made in the last few years has on the whole been remarkable. Prewar living standards are being approached and in some cases exceeded, despite the fact that a proportion of total output larger than prewar is being devoted to capital improvement and that populations have substantially increased. At the same time a great advance has been made in readjusting foreign trade to the loss of prewar income from overseas investments. Total export volume is now well above the prewar level, whereas imports have been held close to that level. The total import surplus declined from over 7 billion dollars in 1947 to a level estimated at approximately 2½ billion dollars in the fiscal year 1949–50. Western Europe's major international payments problem in the last few years has been the deficit with the dollar area. This deficit has exceeded its total deficit. It reflected the failure to obtain sufficient supplies from nondollar sources and to earn sufficient dollars (or currencies convertible into dollars) to pay for necessary imports from the dollar area (see appendix, tables 8 to 10).

During the last year, the ERP countries as a group have not in fact required the full amount of ECA aid to finance dollar imports and have been able to make substantial progress in rebuilding their monetary reserves. Increased restrictions on dollar imports, particularly in the sterling area, and devaluation have been among the most important factors contributing to this development. In the fiscal year 1949–50, with a total import surplus in the neighborhood of 2⅓ billion dollars and a deficit in dollar payments that was probably little, if any greater, the ERP countries received nearly 4 billion dollars of American aid, which made possible a substantial increase in their gold and dollar reserves. Between the realignment of currencies in September 1949 and June 1950, gold and dollar reserves increased by 1.5 billion dollars, of which about 70 percent was accounted for by the United Kingdom. It should be noted, however, that this increase left reserves of most countries below levels which should be considered satisfactory from the standpoint of our own interests as well as those of the countries concerned (see appendix, table 11).

An encouraging aspect of this improvement has been the extent to which Western Europe's dependence on United States sources has diminished. The decline in its imports from the United States has had no apparent depressing effects on its economic activity. This decline was made up mainly by larger domestic production, which was accompanied by an increase of almost one-third in intra-European trade. There has been an improvement in the competitive position of Western Europe and a tendency toward a return to prewar trade patterns. Leading countries tended to shift their purchases toward exports from countries which had devalued their currencies most, and against exports of those whose currencies were either not devalued, or devalued by only a small percentage.

Some of the improvement in Western Europe's trade position was due to factors that appeared temporary even prior to the decision to rearm. Rebuilding of inventories in the United States, by its very nature a temporary process, led to an increase in United States imports from which Europe benefited. Devaluation was followed by a return to official reserves of gold and dollars previously acquired for speculative purposes. Despite these temporary influences, however, a substantial part of the improvement in Western European trade rested on the sound foundation of increases in productivity and improved competitive position. Despite the need to rearm, appropriate domestic policies may still permit Western Europe to improve its competitive position in world markets, and these markets may be expected to expand as a result of the rest of the world having larger amounts of dollars to spend.

The main reason why the recent rate of improvement now appears likely to be temporary, however, is that Western Europe has not yet felt the full impact of higher raw material prices arising from acceleration of United States rearmament, nor the impact of its own prospective rearmament. A serious inflation in the prices of raw materials, which Western Europe must import, relative to the prices of manufactured goods, which it exports, may adversely affect both its dollar and nondollar balance-of-payments positions. This effect could be particularly hard on the major Continental countries and could create difficulties in meeting import requirements. Thus, it is important that cooperative measures be taken to maintain equitable prices for raw materials, if possible through accelerating the increase in their output, and in particular to maintain reasonable price stability in the United States and in United States exports.

The requirements of rearmament, moreover, will increase the quantity of imports needed and, by straining Western Europe's productive capacity, will tend to reduce the quantity of goods available for export. This strain will be somewhat alleviated by a continued expansion in total output. It cannot be expected, however, that the rate of expansion achieved in recent years, as large-scale reconstruction and modernization were undertaken with the help of sizeable United States aid, will be maintained in the future.

A third difficulty, growing out of the rise in import prices and the strain of rearmament, is the danger of inflation in Western Europe, which could accentuate both the balance-of-payments problem and the problem of making the best use of strained resources.

The internal policies and measures needed to meet these problems will require increased restraint in domestic consumption and investment. In some countries, inflationary pressures still persist; in others, governments are faced with problems of social cleavage and political division. There is an obvious clash between the common sacrifices necessary for adequate defense and for self-support, and the powerful popular aspirations for better living.

Present circumstances, moreover, vary significantly among the several countries of Western Europe. The United Kingdom, although faced with exceedingly difficult adjustments economically, has by concerted national effort made great progress toward a successful adjustment to its changed postwar position. It has been aided in this effort by its high national morale, the close relationships with other members of the Commonwealth and sterling area, and the strong markets for the latter's raw material exports. The particular situation and importance of this group of countries is discussed in a succeeding section.

Apart from the special situations of Greece and Austria, the major continuing economic problems appear to be concentrated in Italy and Western Germany. In spite of encouraging progress in many respects, economic activity falls far short of full utilization of resources, and political and psychological difficulties handicap the marshaling of full economic strength. In Italy a substantial reduction in unemployment will require additional investment and forceful government initiative. Its full elimination would probably require large-scale emigration, for which there is little prospect at present. In the case of Germany, the inflow of millions of refugees, and the lack of housing for workers in areas where output could be expanded, has created a serious unemployment problem; the curtailment of important sources of supply and markets in Eastern Europe has disrupted the customary pattern of trade; and the backlog of war destruction, notably in housing, makes necessary a high rate of investment. Both countries may be especially affected by the deteriorating terms on which their exports exchange for imports, which emphasizes the need for rapidly raising employment and output.

In Italy and Germany, and also in France, the lack of political cohesion is a matter for serious concern, and this in turn reacts on economic incentives and progress. While much improvement in the economic situation is being achieved through the development of export markets, the basic problems appear to be mainly internal. The capabilities of some present governments are limited by the divided nature of their support and also by poorly designed or administered revenue systems.

Western Europe's economic potential in general, though very large in comparison with most areas of the world, is seriously limited by a weakness in entrepreneurial initiative and by the unwillingness of many European businessmen to face the challenge of vigorous competition. Managerial and technical deficiencies are protected and entrenched by restrictive business practices, such as price-fixing and market-sharing agreements, which are everyday features of European business life. Governmental policies to raise the efficiency of the

European economy by reducing barriers to competition in intra-European trade have in many cases been frustrated by agreements among business firms to refrain from entering each other's home market. As a result, Western Europe is not at present making the most efficient use of the productive resources which it already possesses.

The disturbing aspects of the situation on the Continent are in large part a clear reflection of the present state of national morale and apprehension regarding their future. One essential element in removing this obstacle is the development of adequate military defense. But rapid progress toward Western European integration, and toward a closer alignment of the North Atlantic Community, are also essential elements; it is in this connection that they are of great immediate significance, although in the long run they will also have salutary effects on the economic structure.

The impact of present developments must be evaluated in the light of these general outlines of Western Europe's economic position. Foremost among these developments are, first, the intensification of rearmament in the Western World, including United States military aid to the North Atlantic Treaty countries; and, second, the increasing urgency of strengthening the non-Communist world, both politically and economically, of increasing supplies of essential materials, and of expanding output of all kinds.

B. Issues Arising From Expansion in Military Effort

The security of the free world requires a rapid acceleration in building up of defensive military strength. This will be a joint effort based on mutual interest and requiring common sacrifices in accordance with economic capabilities. This military buildup will divert to military purposes some resources which would otherwise be available for consumption, investment, or exports. Thus, questions arise as to how far the countries of Western Europe must go in military expansion for security reasons, how far they can go without endangering political stability, and what the resulting needs for United States economic aid or changes in United States policies may be.

The impact of United States rearmament will be to enlarge greatly the available markets for European exports and the ability to earn dollars, both in the United States and in third areas. Adequate markets are in prospect for some time and this removes at least temporarily what was, prior to the decision to accelerate rearmament, the major threat to achieving European self-support. The impact of Western Europe's own rearmament, however, will threaten its ability to take advantage of these markets; it will involve difficult choices regarding the forms in which and the extent to which sacrifices will be made. Thus the prospective problem of Western Europe is not mainly one of obtaining adequate dollar markets, but again takes the form of obtaining sufficient total resources to meet the needs of security and political stability.

The maintenance of high levels of investment is desirable to expand and modernize basic capacity and to meet acute housing needs in certain countries. A continued rise in the volume of exports is necessary if self-support is to be achieved. There will be pressures for further increases in consumption, particularly since many shortages have only recently been overcome. The Western European countries are thus faced with a series of difficult choices.

On the other hand, the living standards in Western Europe, while in some respects below those to which their peoples had become accustomed before World War II, are still high relative to the rest of the world outside the United States and some members of the British Commonwealth. Minimum consumption requirements are not so much related to physical necessities as to what is needed to prevent political unrest, or to strengthen economic effort and national loyalties. And this, in turn, is largely a matter of national morale. There is reason to believe that, as the free world acquires the capacity to defend itself, Western European morale will be strengthened and the economic adjustments necessary to rearmament will be facilitated.

A military buildup of sizable proportions could be undertaken without requiring a diversion to military purposes of the total growth in output which can be expected over the next few years in Western Europe as a whole. Much less of the possible increase in output would need to be diverted if aggressive measures are undertaken to eliminate under-employment of resources. The military buildup will, of course, bear heavily on certain industries, as it will in this country. It would also raise difficult fiscal problems for the governments involved, in the light of inefficient revenue systems or of budgets already large.

Although the requirements for future United States aid are not the result of purely economic factors, and are related to questions of morale and political capabilities, these requirements may be nevertheless real and compelling. It is clearly in our interest, as it is in theirs, to have the Western European countries as soon as possible in a position, both militarily and psychologically, to participate fully in the joint defense effort; and to achieve full use of their resources to increase the security and economic strength of the free world. Toward this end United States economic aid plays a subsidiary but necessary role. It has served in the past and can serve in the future to strengthen the political forces attempting to preserve and strengthen free and democratic traditions, and to facilitate an acceleration in production which at the present time is essential.

One fact is clear—Western Europe is the most critical area from the standpoint of our security and the security of the free world. To facilitate a rapid military buildup of a size sufficient to develop needed defense capabilities within a few years, the United States should be prepared to extend economic assistance as well as to provide finished military equipment during the period required for the rapid buildup. Without such assistance, some buildup is undoubtedly possible; but present projections clearly indicate that a buildup of the required proportions and of the required rapidity (*a*) is beyond the capacity of Western Europe to undertake—the short-run pressure on living standards would be too great; and (*b*) will involve some increase in supplies from dollar sources and thus will exert special pressure on the short-run dollar availabilities of most of the countries. The continuing marked rise in the dollar reserves of some European countries up to the present reflects the favorable impact on their dollar position of developments in the United States, while the impact of their own rearmament on their requirements has not yet been felt.

The amount and duration of economic aid to support the defense program obviously depend on the size and duration of rapid military expansion in Western Europe, and on the proportion of their military requirements which will be produced in the United States. Although economic recovery has been more rapid than was anticipated in 1947, recent events have superseded recovery as the dominant objective.

June 30, 1952, is thus no longer a target date. We should face frankly the fact that the original purpose of the European Recovery Program—to help Europe to become self-sufficient within a 4-year period—must be modified, as far as timing is concerned, by the subsequent developments on the international scene, although the basic objectives of the ERP in Europe are, if anything, more vital than ever to our national interests. Furthermore, the provision of military equipment is not by itself enough to enable Western Europe to expand its own military production and forces with sufficient rapidity. What is needed, therefore, is a reassessment of the outlook of the Western European countries in the light of their revised requirements and their capabilities under the joint defense effort.

Provided that the Western European countries undertake a genuinely adequate effort to proceed rapidly in building their defenses, it now appears that a continuation of United States aid, apart from military end-items, will be needed for another 3 or 4 years beyond the present time, and will be in the interests of the United States. The magnitude of the required assistance cannot be firmly estimated until the size of the rearmament effort by individual countries becomes clearer. It should be emphasized that the purpose of this continued aid is primarily to enable Western European countries to remain effectively functioning partners while undertaking their full and necessary contribution in the joint effort to build adequate defenses for the free world. The requirements must be gauged according to the plans agreed upon.

C. Methods and Administration of United States Assistance

In determining the nature of assistance, and in its administration, it is important to bear in mind the longer run objectives with respect to the creation of a democratically strong and economically independent Europe. In this connection three major aspects appear important.

First, a large military expansion program in Western Europe must be made part of the total effort to achieve closer political relationships and unity of purpose. If, for example, it were approached on a country-by-country basis, it could seriously impede the progress now being made toward greater integration of European economies and removal of trade barriers. This could ensue from attempts of individual countries to protect their balances of payments against increased import demands and reduced export availabilities resulting from domestic income inflation, and from disparities in rearmament effort. We should resist any such trend by encouraging necessary internal measures and through the administration of United States aid. Only in this way can the output of Western Europe be maximized.

One aspect of the administration of aid relates to the future of the European Payments Union (EPU). The expansion of intra-European trade has been one of the most important elements in European recovery, and further expansion can make possible increasingly efficient utilization of resources within Europe. The EPU stimulates this by providing a multilateral system of payments among the Western European countries and also the whole sterling area. The United States should continue to support the development of an effective intra-European payments mechanism. At least for the time being it should continue to allot to EPU a portion of the dollar aid it extends to Europe. This makes it possible for those countries needing dollars to earn at least some part of them by exporting to other EPU countries and would enable other countries to finance additional import requirements which can be satisfied from within Western Europe and the nonparticipating sterling area. Consideration should also be given to using EPU to finance transfers of equipment and materials vital to the defense program among the Western European countries and the nonparticipating sterling area.

While the present EPU arrangement involves continued discrimination against dollar imports, there is no necessary conflict between the liberalization of trade and a better economic integration within Western Europe, and progress toward the restoration of a world-wide system of multilateral trade and payments. The removal of bilateral and other restrictive controls on intra-European trade would promote competition and productive efficiency and thereby strengthen the competitive position of European exports in world markets. The EPU system would tend to merge with a world-wide system of settlement in convertible currencies if the element of gold settlement in it were progressively increased. This is the direction in which we should press. Full gold settlements of debtor and creditor positions in intra-European trade and the complete elimination of trade discrimination will not be possible, however, until the competitive position of the Western European countries on world markets is improved to the point where they are willing to use dollars they earn in world markets in settling intra-European accounts. Thus, basically the EPU should be viewed as a transitional mechanism in the process of achieving both a greater integration within Western Europe and an approach toward freer trade between Europe and the rest of the world.

Second, both economic and political considerations make it wise to separate the administration of economic assistance for European civilian and military production from United States military assistance: i. e., the provision of finished military equipment. Obviously decisions on the type and amount of total United States assistance, as well as on many other matters, must be based on top policy determination within the U. S. Government and on over-all plans agreed upon among the participating countries. Once such decisions are made, the planning of United States aid, apart from military equipment, should not be based on a mere adding up of specific European projects, such as the production of specific military items. It should rather be based on an over-all assessment of requirements of Western European countries—for consumption, investment, export, and military production—and should be operated to promote needed developments in public policy and better utilization of resources.

Furthermore, the basic constructive purposes of economic aid have been clearly set forth in connection with ERP. It is therefore likely to be much easier to make sure that the peoples of Europe well understand that our ultimate objective is a prosperous and secure peace if we maintain this or a similar approach in our foreign policy, although the administration and programing of aid should of course be modified to reflect the new situation. It is in this connection that the use for military purposes of local currency counterpart funds arising from United States assistance may have political disadvantages. From the standpoint of military programs such use is irrelevant, since increased use of counterpart for present nonmilitary expenditures can release ordinary government revenue for military expenditures.

Third, the long-range effect of a military buildup in Western Europe on future export volume raises an important issue. Short-run cost considerations favor the production in Europe of many military items, both for American and Western European use. A substantial increase in military production, however, will inevitably reduce Western Europe's capacity to export, not only because certain industries needed for military production, e. g., engineering, metallurgy, heavy chemicals, are also important export industries, but because a large expansion in military production will divert resources away from other industries now producing for export.

That European rearmament will require some diversion of resources away from export is inescapable. But unless Western Europe is a few years hence to be faced with the need to rehabilitate export capacity and export connections, as it was following World War II, this diversion should be held to the minimum compatible with effective rearmament. There are strong economic as well as security reasons for providing a large proportion of United States assistance to Western European rearmament in the form of finished military items.

Preserving a proper balance between exports and arms production in Western Europe will run counter to the natural trend in the psychology of the United States public during a period when United States export availabilities, notably of durable goods, will be declining. It is important that the American public understand the real nature of the alternatives. The questions are (*a*) the extent to which Europe can best contribute to the needed military buildup by diverting resources to the production of military goods rather than by earning military goods through exporting what it can produce most efficiently; and (*b*) whether Western Europe will continue to strengthen its long-run position through the development of trade with areas capable of supporting lasting trade relationships, or whether this process will be reversed and problems stored up for the future for the United States as well as Europe.

The cases of Germany and Italy are particularly important. Both now have considerable unemployed manpower and facilities, although these would require in many cases retraining and retooling to attain efficient production. It is of course essential that these resources be drawn into pr. 'uction and that markets be found for their output. To some extent this can and should be done through military programs, but to carry this process so far that these two countries are prevented from expanding their civilian export trade and establishing those continuing trade relationships that they require for independent economic existence, might well in the long run prove to be an exceedingly expensive method of military procurement. The problem is not only one of military output; it also involves the need for firmly orienting toward the free world the peoples and the economies of the former enemy nations.

Added emphasis is lent to the above discussion by a consideration of the broad objectives of our foreign economic policy, which are to increase the economic strength and solidarity of the free world and to assist in marshaling its resources in the most effective fashion. One way is clearly the development of an international trade pattern which makes the best use of available resources. Viewed in this light, the large and growing industrial capacity of Western Europe becomes a source of great strength to the free world, a means whereby defense capabilities can be stepped up, and at the same time a means whereby the urgent requirements of many underdeveloped areas can be met to mutual advantage. Western Europe on its part must have access to those markets to become self-supporting, and must accept responsibility for competing effectively in them. It would be highly unwise to interrupt or retard the development of this pattern which is already well advanced, except to the extent that limitations of capacity make it necessary to do so in the light of military needs.

As general guidelines, therefore, the following are suggested: (*a*) the urgently required military buildup of Western Europe should be accompanied by adequate consideration of long-run export requirements, although it should be expected to involve a substantial diversion of rising total output away from consumption and investment; (*b*) the administration of economic assistance, including assistance for military production, should be kept separate from the provision of military equipment, although these programs must obviously be closely related; and (*c*) economic assistance should be based on overall requirements and directed at encouraging full utilization of resources and greater integration of Western European economies.

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The general tenor of our economic policies toward Western European countries should be to return to a partner relationship, based on their financial independence and appropriate trading relationships with the rest of the free world. This is one of the needed components in a revival of European vitality.

D. The British Commonwealth and the Sterling Area

The strategic importance of the British Commonwealth to the mutual defense program, both area-wise and as a supplier of resources, is generally well known and does not require elaboration. What may be lost sight of at this juncture is the importance, to an effective organization of the economic resources of the free world, of sterling in world trade and of a strong position of the United Kingdom. Not only is the sterling area an indispensable source of raw materials, but the position of Britain as banker and trading center of the world's largest currency area makes Britain's trading and currency policies of great importance to the realization of United States foreign economic objectives.

Furthermore, the development of a healthy trade position for the Continental countries, the economic structures of which are adjusted to an historical deficit in direct trade with the United States, requires an increasing ability on their part to earn some dollars in multilateral trade with the sterling area; this in turn requires a gradual liberalization of restrictions against sterling area imports from the Continent. Also, adequate development of the production of primary materials in the sterling area will be facilitated by continued releases of sterling balances in moderate amounts, and British public and private investment for productive purposes in the dependent overseas territories and the rest of the sterling area. This is a desirable segment of a world-wide program of development of underdeveloped areas.

Since the war the United Kingdom has made impressive progress not only in her domestic production but in correcting the highly unfavorable position of her foreign trade account. British exports in the first half of 1950 had increased to 60 percent above the average 1936–38 quantity, reaching the highest level on record, while the quantity of imports has been held to slightly less than the prewar level. This improvement in trade position has been heavily dependent on foreign aid from the United States, and, to a much smaller extent, from the Commonwealth countries, mainly Canada. It has also depended substantially on a control of foreign trade through the use of restrictive and discriminatory devices, imposed for emergency purposes.

Imports have been subject to quantitative restrictions and exchange controls. Exports from the United Kingdom have been facilitated by continued discrimination against dollar imports by the rest of the sterling area and by other soft currency countries. Exports have likewise been attracted into sheltered markets through the release of accumulated sterling balances and the investment abroad of new funds (see appendix, table 13).

The improvement in the sterling area's international trade and financial position has been particularly rapid during the past year. From the eve of devaluation in mid-September 1949 to September 30, 1950, gold and dollar reserves rose by over 1.4 billion dollars to a level of 2.8 billion dollars. The sterling area outside the United Kingdom has become a substantial net earner of dollars. On the other hand, the improvement of Britain's dollar position has been accompanied by a rise in external sterling liabilities (see appendix, table 14).

Rearmament in the United States with its attendant increases in imports and rise in prices should tend, on balance, to improve further the gold and dollar position of the sterling area as a whole. The rise in rubber and tin prices from January to June 1950 would alone have the effect of increasing the foreign exchange earnings of Malaya by 200 million dollars annually. Other dependent overseas territories may be expected to increase substantially their dollar earnings from these commodities, or others such as cocoa. A heavy demand for wool and higher wool prices has shifted Australia from the position of a dollar deficit country to that of a net earner of dollars. Rising prices in the United States will not only facilitate British exports to this country, but will tend to shift purchases in other areas from American to British exporters. On the other hand, offsetting factors, mainly higher prices for imports, are likely to prevent the improvement from being spectacular. Taken by itself, such improvement as may occur is desirable from the point of view of United States foreign economic interests. Although the gold and dollar reserves of the sterling area had reached 2.8 billion dollars in September 1950, this was not a satisfactory level.

The position of the United Kingdom alone, apart from the rest of the sterling area, will be much less favorable. Its terms of trade are likely to continue deteriorating, and its prospective gains in dollar reserves may be in part offset by a rise in short-term sterling balances, at least some of which the holders will want to use.

More important, a large increase in British military expenditures will involve some increase in imports and, even with a tightening of internal controls, may divert some resources away from export, thus prolonging the period of economic dependence on the United States which both we and the British are eager to avoid. The British have indicated that they are proceeding with an expanded military program without waiting for the determination of the amount of additional United States aid. Yet it must be expected that an assumption by the British Government of its full military responsibilities will involve, not only some reduction of planned consumption and internal investment, but also a substantially slower rate of improvement or even a deterioration of the United Kingdom's external position. Achieving the needed rate of increase in British military expenditures by means that seriously worsen the external economic position of the United Kingdom should be avoided, in the interests both of the United Kingdom and of the United States.

The convertibility of the pound sterling is in many ways an essential first step toward the restoration of multilateral trade. Progress toward sterling convertibility should take the form of a gradual relaxation of discriminatory trade controls on the part of the sterling area countries. This would mean that Britain would need to improve her competitive position to the point where she could hold her trade without the aid of discrimination by the rest of the sterling area in favor of soft-currency imports. Furthermore, convertibility could not be achieved without the immobilization of a large portion of the sterling balances. Such immobilization would present political difficulties for Britain and might impose economic hardship on certain holders of these balances. Finally, Britain could probably not safely undertake the restoration of convertibility until her reserves had been built up to substantially more than the current level.

Progress toward convertibility should be encouraged. When and if Britain has met the conditions essential to convertibility (see Ch. V), other than accumulation of adequate gold and dollar reserves, it may be in the interests of the United States to assist Britain in proceeding the rest of the way by making available financial assistance, such as a stabilization credit sufficient to supplement Britain's own gold and dollar reserves.

Canada, as a member of the British Commonwealth but not of the sterling area, has met its postwar import surplus from the United States by an export surplus to overseas countries which has been financed in part by United States aid to Western Europe. Recent increases in exports to the United States and decreases in imports indicate that Canada is adjusting the level of its dollar imports to the level of dollar availabilities without serious consequences. Over the long run, Canada's dollar position should be greatly improved by the development of petroleum, iron ore, and other natural resources, as well as by expansion and diversification of Canada's manufacturing industries, all of which should contribute substantial dollar earnings or dollar savings.

E. Japan

The economic position of Japan is analagous, in many of its aspects, to that of the United Kingdom and some other countries of Western Europe. A relatively highly industrialized nation lacking in many natural resources, Japan's economic well-being is heavily dependent upon foreign trade. Within the Far Eastern region in particular, Japan is an important supplier of manufactures and a significant market for the food and raw material exports of its neighbors. Because of its predominant industrial position in the Far East, the potential contribution of a stable and democratic Japan is extremely important for economic growth, the improvement of living standards, and the maintenance of peace in the region.

Postwar economic recovery in Japan has been rapid. The index of industrial production is only slightly below prewar, while the index of industrial activity (which includes electric energy) now exceeds the prewar level. Agricultural output has surpassed prewar totals, and there has been a steady reduction in Japan's unfavorable balance on current international account. An essential element in this recovery has been United States assistance (totaling almost 1.8 billion dollars from September 1945 through June 1950), which enabled Japan to meet the nearly complete loss of its prewar sources of food and raw material imports in China, Korea, and Formosa (see appendix, table 15).

Further progress in economic recovery is necessary. Because of the very great increase in Japan's population, per capita income remains well below prewar despite the significant recovery in total output. Although attainment of the prewar per capita income cannot be regarded as essential to a self-supporting position, continued progress toward those levels is important to political stability and to the further strengthening of democratic institutions. The chief obstacles are the disadvantageous competitive position of certain segments of Japanese export industry (arising out of obsolete plant and equipment and aggravated by inefficient and wasteful use of manpower), the reduction in the size of Japan's merchant fleet, the international political problems associated with the reentry into foreign countries of Japanese merchant vessels and foreign traders, and over the longer run, the rapid rate of population growth.

Japan's major problem, however, has been the difficulty of finding export markets where it could earn sufficient dollars, or other currencies usable for the purchase of commodities (chiefly raw cotton and foodstuffs) that were in large part obtainable only from hard-currency sources. Thus Japan, like Western Europe, was beginning to be involved in what was essentially a marketing problem rather than a problem of inadequate economic resources. In Japan's case, the marketing problem was aggravated by the permanent reduction in the dollar market for raw and processed silk.

These difficulties, however, are not insurmountable. Even prior to the outbreak of war in Korea, it was clear that Japan had the physical capacity to expand export production sufficiently to cover the cost of necessary imports, subject to its ability effectively to compete with other suppliers. Plant capacity, management, and manpower were all available, although problems of cost reduction through improved methods and equipment remained. Some modernization of industry had been achieved and further improvements in productive efficiency were anticipated. It was thus possible to foresee that the need for net additions to Japan's resources through United States aid would probably disappear at an early date.

Currently, developments associated with or accentuated by the acceleration of United States and Western European rearmament now suggest that the dollar earnings aspect of the Japanese problem is more susceptible of early solution. Markets for Japan's exports—in southeast and south Asia, in Latin America, and in other areas outside the Soviet sphere—in all likelihood will be expanded by the increased earnings of these areas from high prices for raw materials needed in the United States and Western Europe, and because of the reduced availability of United States supplies. As the staging area for United Nations' forces moving into Korea, Japan has acquired a temporary market for goods and services for which it is being paid in dollars. It should be emphasized that the adoption of measures regarding economic development and United States policies suggested elsewhere in this Report would further improve Japanese export markets and thereby aid Japan's dollar position.

During United States fiscal year 1950, Japanese official dollar balances increased by 175 million dollars (from 103 million to 278 million dollars) and at the same time there was a net repayment of short-term credits totaling 79 million dollars. Japan's net short-term dollar position improved by 254 million dollars during the year, as compared with grants of around 420 million dollars. This strentghening of Japan's dollar reserve position was, of course, a desirable step toward the point at which dollar aid to Japan could be ended.

On a conservative estimate, Japan's exports and its gross dollar earnings in the United States fiscal year 1951 will exceed substantially the levels expected prior to the outbreak of hostilities in Korea. Offsetting this improvement will be higher costs for raw materials and for the additional imports that Japan must have to produce additional exports. The expansion of its exports, nevertheless, should permit Japan either to add further to its current dollar balances or to build commodity stocks for future processing or consumption.

With a continuation of present favorable trends, then, Japan may be wholly self-supporting, although at a level somewhat below prewar per capita income, and in possession of substantial dollar and possibly commodity reserves by the beginning of United States fiscal year 1952. Further appropriations for Japanese aid therefore should be carefully considered and measured against the effect of the changed circumstances brought about by current developments.

In the process of achieving a position of self-support, moreover, Japan may have an opportunity to build toward a trading relationship with Southeast Asia and other areas that will permit substantial adjustment to the decline of China's importance as a major market and source of raw materials. Within such a trading pattern, Japan can supply the underdeveloped areas, where its chief markets must be found, with an important part of the capital and consumers' goods needed for development purposes. Given the necessary expansion and diversification of the productive capacity of the underdeveloped countries, Japan can hope to find new sources for its raw material imports and at the same time to develop a mutually beneficial exchange of specialized manufactured goods.

If raw materials and markets are available, Japan's economy could probably supply a markedly higher volume of exports than at present while at the same time maintaining acceptable levels of domestic consumption and investment. However, Japan is perhaps more than any other nation dependent upon imports for survival, and if it should prove unable to increase its production for export, it might need external aid to finance imports.

IV. The Underdeveloped Areas and Economic Development Programs

A. Present Situation and Prospects in the Underdeveloped Areas

The largest part of the non-Soviet world, measured in terms of population and land area, consists of economically underdeveloped regions. With some exceptions, the countries of three areas—Latin America, Asia, and Africa—fall into this category. In the non-Communist parts of these areas live 1,150,000,000 people, 70 percent of the population of the entire non-Soviet world. These areas also contain a large part of the world's natural economic resources. For that reason, too, they represent an economic potential of great importance. Despite their great natural resources, many of these countries have an extremely low standard of living, reflected in per capita income averaging below $100 a year in important countries, low levels of literacy, and poor conditions of sanitation and health, with life expectancy at birth being 30 years or less in many countries. (See appendix table 16)

These countries no longer accept poverty as an inevitable fact of life. The contrast between their aspirations and their present state of unrelieved poverty makes them susceptible to domestic unrest and provides fertile ground for the growth of Communist movements. Some of these countries, in addition, are geographically close to Soviet-dominated countries.

The United States has long been concerned with the material progress of the peoples of the underdeveloped areas, both as an end in itself and as a means to the development of stable, democratic societies. In the present state of world tension, the urgency of our interests in these areas has greatly increased. First, we must help them strengthen their ability to maintain their independence. Second, we must secure the cooperation of their peoples and their governments in an effective system of mutual defense. Third, we must help bring about in these areas increasing production and mutually beneficial exchange of materials for civilian and defense use. Finally, we must assist in bringing them increasingly into a network of international trade which will promote a more effective use of the economic resources of the free world and will enable the countries comprising it to achieve progress on a self-supporting basis.

The first of these purposes is a prerequisite to the full accomplishment of the others. It requires, among other things, that the loyalty of these peoples to political democracy be won or made more secure. This, in turn, requires a demonstration by positive and sustained action on the part of the more prosperous members of the free world that the economic aspirations of underdeveloped countries can best be realized in association with the rest of the free world.

The outstanding general economic characteristic of these areas is the heavy concentration of their populations in relatively primitive agricultural activities. Most of this rural population is engaged in the production of foodstuffs for domestic consumption. Crop yields per worker and per unit of land area are low, largely because capital is lacking and agricultural technology is primitive. Levels of literacy, technical skills, sanitation, and health lag far behind those prevailing in the developed countries. In many instances, land tenure, agricultural credit, and tax systems aggravate the poverty of the agricultural producer. At the same time, they deprive him of a significant share in any increase in output, and thereby of incentive for raising his productivity.

The pressing need of most underdeveloped regions is for agricultural reforms which would combine measures to raise agricultural productivity with steps to ameliorate the tenure, credit, and tax burdens that bear most heavily upon the agricultural population. Such reforms, successfully carried forward, are needed to expand the resource base, make possible a release of labor for additional development, enable food output to outstrip population growth, and reduce some of the chief underlying causes for political instability.

The coming period of intensive armament activity in the industrialized countries is likely to bring shifts in export-import price relationships favorable to primary products, which are the chief exports of the underdeveloped countries. Already there are significant indications that United States and European defensive preparations will have this result. The altered price relationships will mean that some of the underdeveloped countries will have greater ability to buy goods abroad as a given quantity of exports becomes exchangeable for a larger quantity of imports. If manufactured goods continue to be made available from the United States, Western Europe, and Japan, the underdeveloped countries producing for the world market will be in a stronger position to proceed with development programs. But the new price relationships between primary products and manufactured goods will not affect the underdeveloped countries according to a uniform pattern. In those cases where production of raw materials for export is an important fraction of total production, the relative gains will generally be largest. Where export commodities comprise only a small proportion of total production, or where prices of major imports rise correspondingly, the benefits of higher export prices may be nominal. For some raw material exports, moreover, the upward price movements may be limited.

Latin America

During World War II, mainly as a result of an export boom and the nonavailability of imports, the Latin American countries accumulated large reserves of gold and foreign exchange. In the immediate postwar years, much of this accumulation went into the replenishment of consumer goods inventories and toward the satisfaction of pent-up demand for imports, which was also stimulated by inflation. At the same time, an expansion of physical plant, particularly industrial plant, was financed in part out of exchange accumulations and earnings. In spite of generally favorable prices for export commodities during the postwar years, the volume of Latin American exports has not risen appreciably above prewar levels. An actual decline has occurred in the export of agricultural commodities. By 1947, many countries were in foreign exchange difficulties and in 1948 most of them applied more or less stringent import and exchange controls to protect their remaining dollar and gold reserves. These controls, along with the gradual restoration of Europe's ability to supply exports which the Latin American countries had been obtaining from the United States, and a sharp rise in the price of coffee, largely halted the drain on Latin American gold and dollar reserves by the end of 1949.

There is now a strong probability that strengthened demand for Latin American exports will further improve the area's exchange situation. As during World War II, the major beneficiaries in terms of absolute amounts are likely to be Cuba, Brazil, and Venezuela, but the improvement will probably be substantial absolutely or in percentage terms for virtually all of the Latin American countries.

It is likely that high prices and impending shortages of raw materials will stimulate a greater volume of private United States investment in Latin America. In a world of heightened political and military tension, Latin America may, in fact, be the one underdeveloped area sufficiently removed from the threat of aggression to attract sizeable amounts of United States private capital. An easier Latin American dollar position, which would permit the relaxation of exchange controls, could be a further investment stimulus. At the same time, private investment will probably be selective, with the bulk of the new funds going into minerals development in a relatively few countries.

If essential imports continue to be available, Latin America in some respects promises to be able to take more effective advantage of a period of prosperity than at any time in the past. Development programs have been shaken down to more manageable proportions, many of the problems arising out of shortages of technical skills have been recognized and attacked, and there has been a healthy tendency to emphasize the need for improvements in the agricultural field. A considerable amount of basic work has been completed in connection with applications for International Bank and Export-Import Bank loans and might now bear fruit. The basis for prosperity in Latin America would be considerably broadened if increased production of strategic materials were accompanied by an adequate expansion of the transportation network, power plants, and river and harbor facilities.

There is danger, however, that the additional higher export earnings will raise the cost of living and promote inflationary profits, on the one hand altering the distribution of real income to a degree that will create social unrest and political instability, and on the other dissipating the additional foreign exchange earnings in wasteful imports of luxury consumers goods. If the benefits of higher export earnings are to contribute to economic development in these countries, their governments must take measures to conserve foreign exchange earnings for that purpose and see to it that a portion of increased domestic income is saved and invested.

The Middle East

By reason of its geographic location, communications facilities, and oil resources, the Middle East area—here defined as comprising Syria, Lebanon, Israel, Jordan, Iraq, Egypt and the Sudan, the Arabian peninsula states, and Iran—can be expected to be a continuing objective of Soviet expansionism. Both the external and indigenous Communist threats are already serious in Iran. An extension of Russian influence into this region as a whole would further menace Greece and Turkey; it would threaten the whole of south Asia; and it would jeopardize the security of the intercontinental communications which converge in the Middle East. But oil in itself is a sufficient prize for the Soviet Union. The Middle East fields contain about 50 percent of the world's known oil reserve. Present production is adequate to supply European requirements; 1953 production is expected to be sufficient to meet total Eastern Hemisphere demands. To lose access to this resource would greatly weaken the security of the free world.

Receipts from the sale of oil provide substantial income and foreign exchange to the producing countries, which could be used to finance economic development under proper local governmental policies and practices.

Apart from oil, which is concentrated in parts of Iran, Iraq, and the Arabian peninsula, virtually the only important natural resource of the Middle East is agricultural land. The remainder of the region, except for Israel, is largely dependent upon the output from a limited amount of arable land. Most of the land area—70 to 80 percent—is noncultivable; most of the cultivable land requires irrigation. Agriculture is typically small-scale and technologically retarded. In general, it is marked by low yields and by tenure and credit arrangements onerous to the peasant cultivator and inimical to the introduction of more efficient agricultural techniques.

In these circumstances, it is quite clear that the immediate economic problem of the Middle East is in agriculture. If the agricultural base is to yield any significant surplus over minimum domestic requirements and thus to provide a margin for increased local saving, there must be extension and improvement of irrigation facilities, reclamation of potentially cultivable land, at least a beginning of modernization of agricultural technology, and meaningful measures of reform of uneconomic tenure and credit systems. Given the administrative weaknesses of many of the Middle Eastern governments, the paucity of local capital funds and the variety of interests standing in opposition to change, the area as a whole is not ready for more than limited steps in these directions. Even limited progress, however, might reduce their vulnerability to Soviet political infiltration and pressure.

With the probable exceptions of Egyptian cotton and the petroleum output of Iran, Iraq, and the states of the Arabian peninsula, the export commodities of the Middle East area are not likely to find substantially improved markets abroad. Current indications are that Egypt will increase its foreign exchange earnings appreciably during a period of active rearmament in Western Europe, and that revenue from oil exports will rise. Syria, Lebanon, Jordan, and Israel have only limited export capabilities, and those are mainly in commodities that are not likely to find relatively stronger world markets.

South and Southeast Asia

In this area, the threat of Communist aggression is immediate and substantial. Armed uprisings, led by Communist parties, are currently in progress in Indochina, Burma, Malaya, and the Philippines. In Indonesia, Pakistan, and India, non-Communist governments are faced with deep-seated difficulties upon which Communist movements seek to capitalize. Thailand's large Chinese minority is a potential threat to internal stability. And prevailing over the whole area is the military-political insecurity arising from the existence of the new Chinese Communist regime.

Numerically, peasants comprise the bulk of the area's population. Their poverty and grievances provide the major underlying and chronic bases for political unrest. In recent decades agricultural production has not kept pace with population growth, with the result that the food position of the area as a whole has worsened significantly. In a real sense, the newly established non-Communist governments of this region are on trial before their own people, with their status largely dependent upon their success in finding solutions to their economic problems, and in some areas to the agrarian problem in particular (see appendix, table 17).

Dislocations and damage caused by World War II, difficulties associated with the subsequent transition from dependent to independent status, wars and civil disturbances, and the continuing menace of Soviet aggression have been in some measure responsible for the slow postwar economic recovery of the region. One of the most serious aspects of this has been for some countries a persistent shortage of foodstuffs and its adverse impact upon the terms of trade and balance of payments position. The food shortage has been traceable in part to the increased requirements of expanding populations and to disorders that have cut deeply into rice exports from two of the rice-surplus countries, Indochina and Burma.

India has the most difficult problem, both short- and long-term. Drawings on sterling balances of 1.6 billion dollars and a 100 million dollar loan from the International Monetary Fund, supplemented by the first drawings on International Bank loans, covered current account deficits from 1945 through 1949. This did not permit any appreciable rise in consumption standards or net addition to existing capital; indeed, it is doubtful that capital has even been maintained. Pakistan has also had serious difficulties, and has drawn substantially on sterling balances. The trade war with India, intensified by the decision not to devalue the Pakistan rupee, has increased the difficulties faced by both India and Pakistan.

The situation in the Philippines has been seriously deteriorating, despite United States postwar payments totaling 1.2 billion dollars through 1949, which financed a sizeable volume of imports; while they have made substantial progress in reconstruction of wartime damage, they have made only limited progress toward economic development and self-support, and almost none toward greatly needed agricultural reform. Indonesia's protracted dispute with the Netherlands brought a very considerable amount of destruction of physical plant and seriously impeded export recovery until this year. Malaya, despite being harassed by Communist guerrillas, has fully restored prewar production of rubber and tin, its two major export commodities; although it has incurred persistent deficits on current international account, it is now again an important earner of dollars. Thailand and Ceylon, by comparison, have made the adjustment to the postwar situation more readily, but have not made more than a small beginning toward economic development and diversification.

Recent events have significantly altered the economic prospects for much of this region. The export economies of Indonesia and Malaya, based largely on rubber and tin, will benefit spectacularly from current prices for these two commodities. Ceylon and Thailand can also expect to increase their ability to buy abroad as a result of high prices for primary products such as rubber, tea, and, in the case of Thailand, rice. The Philippines, too, may have an opportunity to expand export earnings and thus to limit the impact of scheduled declines in United States war damage and rehabilitation payments. In Burma, although rice exports are expected to be only about one-third of prewar levels in the current crop year, gradual progress is being made toward the restoration of internal order. This promises to restore rice production to more normal levels and in the process to relieve part of the region's food shortage. In Indochina, recovery and further development must await a drastic improvement in the country's political-military situation.

India is the most important exception to the improved general outlook for this area. Relative to neighboring countries, production for export makes only a small contribution to the Indian economy. Moreover, India's textile industries are heavily dependent upon imports of cotton and jute; price increases in these commodities will tend to cancel out gains from rising prices for a number of India's exports. And it is in India, above all, that the need for net imports to supplement domestic production is most acute. The huge and growing Indian population is dependent upon an agricultural system of very low efficiency and an industrial sector still far too small to make up for the agricultural deficiency. Any analysis of the Indian economic scene must come to the conclusion that if living standards are even to be maintained, not to say improved, there must be a steady rise in agricultural productivity and an accompanying growth of industrial plant. Even on an optimistic estimate of India's capacity for domestic capital formation, the requirements for this kind of progress are, for the immediate future, beyond India's means.

Africa

The continent of Africa is the last large colonial area of the world. Excluding the Union of South Africa, and Egypt and the Anglo-Egyptian Sudan, here considered under the British Commonwealth and the Middle East areas, respectively, all of the remaining territory of Africa except Liberia and Ethiopia is in one way or another under the control of the European colonial powers: The United Kingdom, France, Belgium, Portugal, Italy, and Spain. The known resources are only partially developed and much of its area has not been intensively or accurately surveyed. As in most of Asia and Latin America, population is growing so rapidly as to make doubtful the adequacy of future food supplies in most of the area. In addition, there is a vast shortage of the basic utility and transportation plant and the health and educational services needed for sound economical expansion.

Despite the fact that its known resources are only partially developed, Africa is the source of a substantial and, for some commodities, a major part of our supplies of certain strategic and critical materials; e. g., asbestos, cobalt, columbite, graphite, industrial diamonds. Beyond the goods it is now supplying, the immediate African contribution to the joint defense of the free world will vary with the amounts invested in making up the shortages in basic public services, as well as with investment in the direct exploitation of African resources. Africa's longer-term role in the European and world trading system and the progress of the colonial areas toward a stable self-governing status likewise depends largely upon basic economic development.

In view of Africa's predominantly colonial status, the direct role of the United States in African development is likely to be limited. The ability of the United Kingdom, France, and Belgium to carry forward the extensive development programs they have projected in this area will depend upon the extent to which rearmament requirements absorb European resources and will thus be influenced by the extent of United States assistance.

B. Obstacles to Development

While the mutually beneficial and immediately desirable course of economic development is reasonably evident, the development process as a whole can be neither simple nor rapid. In general, the underdeveloped areas do not have the economic resources to produce goods in sufficient quantities to maintain consumption and also to provide for rapid economic expansion. The techniques and equipment needed for an improvement in agricultural methods are known, but their application is expensive and time-consuming. Related services are necessary—in power, transportation, education, health—and these cannot be developed except over extended periods. There must be industrial and quasi-industrial development, both to help supply goods and services to an expanding economy and to absorb the labor power released by a more efficient agricultural system. All this requires capital. Poverty itself makes capital scarce within these countries and difficult to obtain from outside. In addition, the institutions needed to maintain the process—financial and credit institutions, for example—must be developed and expanded as economic development proceeds.

The obstacles to an acceleration of development, even with outside assistance, are substantial. The ability to absorb capital effectively is limited. It is limited first by the inertia of custom and tradition in connection with habits of work and methods of production—a lack of enterprise and willingness to take risks. Resistance to new methods of production is likely to be greatest among the mass of agricultural producers, where change is most urgently required. It is limited also by lack of sufficient experienced technical, administrative and managerial personnel, and in many cases by lack of concrete and technically and economically sound plans for the use of capital.

The political and social problems involved in promoting economic development may be even more difficult and complex than the economic problems. Certain basic attitudes or abilities are needed for success. In some countries, more could be done even with currently available resources. Where dominant or governing groups within a country are indifferent or opposed to taking the steps necessary to solve economic problems or to develop popular support and morale, the usefulness of foreign assistance alone is dubious. If foreign aid is not effectively used, it may actually impair popular support and retard economic improvement.

It must be recognized that the governments of some of the underdeveloped countries, especially in south and southeast Asia, are new and inexperienced and face great difficulties, and that in some underdeveloped countries governments are unresponsive to the needs of their people. In these cases there is danger that assistance will not produce results unless there is firm guidance from outside. At the same time, many of these governments, fearing that assistance may be accompanied by intervention in their affairs, are sensitive to anything that may have even the appearance of intervention.

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This fear is sometimes accentuated by a misunderstanding of our foreign policy objectives. These objectives in fact are the fostering and support of political democracy, the enlistment of the cooperation of other countries in defending all free nations against aggression, and improvement in the well-being of their peoples. However, our purposes have sometimes been thought to include a desire to impose upon others particular institutions which are (or which are thought to be) characteristic of the American economy or culture, and which they do not wish to adopt. Thus, the ability of this country to influence the process of economic development by unilateral assistance is limited by factors inherent in the problem. This is one important reason why increasing reliance should be placed upon international agencies.

The underdeveloped countries almost all have high birth rates and, in the absence of famine, epidemic, and civil disturbances, their populations grow rapidly. This is unquestionably one of the most basic problems involved in efforts of their governments to raise living standards. There are, nevertheless, several reasons for cautious optimism. First, the major effects of an improvement in health are likely to be a decline in mortality, with a consequent increase in the proportion of the total population in the labor force, and considerable increases in the efficiency of individual workers. Second, there is considerable room for increased productivity in food production as a result of improvement in technical methods. Third, declining death rates may be followed by declining birth rates. Analysis of Western experience shows that the birth rate tends to decline with improved public health, education, and literacy, even in the absence of industrialization or urbanization.

There is no reason to believe that the obstacles to development cannot be gradually overcome. The need for economic expansion and diversification is recognized in most of the underdeveloped countries. Although plans and programs for development have not always been wisely drawn, many countries have shown an encouraging awareness of the difficult problems involved, and an increasing willingness to make the efforts necessary to their solution. Nationalism, which is a most powerful force throughout the underdeveloped areas, can itself be a constructive factor, invoking as it does the enthusiasm of virtually all groups in the population but especially that of the younger generation. This enthusiasm, if channeled by able leaders, can be a major stimulus to the development process.

Although the greatest part of the effort and resources required for development must be provided locally, the developed countries can nevertheless supply technical skills and specialized equipment and supplies which are of critical importance. They can also supply capital which, though marginal in relation to the total requirements in a country, may be a substantial part of the resources that are available for increasing capital equipment. The fact that grants or loans cannot by themselves rapidly break down deeply rooted barriers to political and economic progress only means that United States aid must be channeled to those areas where effective use of this assistance can be expected.

C. Character of Desirable Development

The potentialities and problems of the underdeveloped countries and the nature of our interest in their economic development indicate the character of development programs that we should support. In addition to increasing production directly for their own use, underdeveloped countries can also improve their economic position by increasing production for export, thereby expanding their ability to obtain goods from abroad. For countries with resources that can be developed to meet a profitable world market, this may be the most efficient way of obtaining additional goods.

We cannot help them raise their living standards in a way that has any permanent effect by direct subsidy of consumption. The basic need is greater productive power. The main requirement, in most cases, is for development which will improve agricultural production. Development along these lines must be balanced with expanded facilities for industrial production, at the outset especially in light industries producing consumers' goods. Finally, public service facilities such as transportation, communications, power, irrigation, education, and health need to be expanded.

The United States will have an increasing need for raw materials, particularly minerals, as domestic resources are progressively exhausted. We are net importers of many minerals and other primary commodities which are vital to our national security and which are produced predominantly in the underdeveloped areas. Since 1946, under the authority of the Strategic and Critical Materials Stockpiling Act of that year, we have been building up a national stockpile of these materials for use in time of national emergency. Since the heightened international tension which arose with the invasion of the Republic of Korea, it has become necessary to step up the rate of stockpile procurement for at least some items. The expanded stockpile program calls for the purchase of materials valued at approximately 1.1 billion dollars in fiscal 1951. This program will reflect a rate of purchasing about three times higher than the actual procurement rate in the first half of 1950.

The stockpiling program will impose great pressure on world supplies of a number of strategic materials. Some commodities were not available in sufficient quantities even before the expansion in the military production program. When the materials requirements of the new stockpiling program are added to the greatly expanded demand of the current military production programs in the United States and other North Atlantic Treaty countries, and to the high nonmilitary demands, it is apparent that supplies of some commodities will be far short of the quantities necessary to satisfy all demands. The requirements of collective security demand a more vigorous effort than has yet been made to bring about a rapid expansion in the output of these materials. This is a vital part of a program of economic development.

The underdeveloped countries can also play an increased and profitable role as exporters of raw materials to Western Europe and Japan, which in the long run cannot count upon purchasing so large a proportion of their import needs from the United States as they were able to purchase when they were receiving aid. The earnings from such exports can be used by the underdeveloped areas to purchase manufactured products from the countries of Western Europe and from Japan. A mutually satisfactory network of world trade is unlikely to be reestablished until the underdeveloped areas, Western Europe, and Japan become, on a much larger scale than at present, markets and sources of supply for each other.

Since the beginning of the year, the foreign exchange position of primary producers has been considerably bettered by the rise of their export prices in relation to the prices they pay for imports and, in some cases, by an expansion in the volume of exports. As a result, many underdeveloped countries will be able to finance a larger part of their development requirements out of their own earnings and will need to rely less upon foreign capital. This is probably the case most conspicuously for Indonesia, Malaya, the coffee-producing countries of Latin America, and other countries producing nonferrous metals. However, some of this gain will be offset as rising industrial prices raise the cost of imports. Moreover, it would be unrealistic to suppose that all of the net foreign exchange gain could be set aside for investment in development. Finally, it cannot be assumed that the current level of export prices will continue indefinitely.

Private investment

Traditionally, the important means of financing the net imports of underdeveloped countries has been foreign private investment. During the 3 years, 1947–49, the annual average of all net United States foreign private investment, excluding reinvested current earnings of foreign subsidiaries, was 800 million dollars of which 734 million, or 92 percent, consisted of direct investment. Purchases of foreign dollar securities, excluding those of the International Bank, have been negligible, and on a net basis American capital, in forms other than direct investment, has returned to the United States. Of the net direct investment 74 percent was in the petroleum industry, including refining and distribution facilities, and was distributed mainly among the few countries possessing exploitable petroleum resources. Much of this consisted of reinvested foreign branch earnings, rather than new capital raised in the United States. Apart from investment in the petroleum industry, an annual average of only 128 million dollars went into the Latin American Republics, and only 28 million into other underdeveloped areas (see appendix, tables 18 and 19).

Private investment can be expected to play a major role in developing mineral resources and in developing certain areas, mainly in the Western Hemisphere and possibly some parts of Africa. Private investment is the most desirable method of development and normally carries with it the technological and administrative skills which are an essential ingredient for effectiveness. The scope for private investment should be widened as far as possible. There should be a constant reevaluation of the role which it can play, and the need for public investment correspondingly adjusted.

It must be recognized that there are now substantial obstacles to an expansion of such investment. Present international tensions are a controlling deterrent in those areas where an actual military threat exists. In other areas the obstacles are largely due to actions, or expressed unfriendly attitudes of other governments toward foreign capital, political instability, fear of government control, or expropriation; and economic difficulties, particularly those resulting in exchange restrictions. There is also an unwillingness on the part of United States investors to engage in foreign investment, owing to past unfavorable experience in some countries, and the high rates of return available to capital in this country. Thus United States foreign investment has been almost altogether direct equity investment by United States corporations with direct marketing or supply interests in foreign countries, and is likely to remain so for some time to come.

A lack of adequate basic services—port facilities, roads, power facilities, sanitation facilities, irrigation, etc.—is also a bar to many types of private industrial development. The need for improving such facilities in the underdeveloped countries is enormous and they are usually prerequisites to other investment. But construction of such facilities is usually not attractive to private enterprise because, even though they are productive, they usually do not yield a direct financial return or yield one only over a long period of time.

The United States Government can and should take action to overcome these obstacles. It should press the negotiation of investment treaties, which can be important devices for formalizing and regularizing the status of the foreign investor. In addition, the pending proposal to authorize Government guarantees against the risks of nonconvertibility and expropriation is a worthwhile experiment. Further, the provision of technical assistance, especially assistance of a survey character, may reveal hitherto unknown resources and opportunities. The Government should treat foreign investments no less favorably than domestic investment. Further study should be given to the desirability and possibility of promoting private investment through tax incentives, in areas where economic development will promote mutual interests, but where political uncertainty now handicaps United States private investment.

There may be a field for private investment abroad in the form of foreign dollar securities, since direct investment is sometimes not acceptable to the underdeveloped country because control rests with the investor, and bond financing is sometimes the only or the most appropriate way of raising private capital. Private purchases of such securities have been very small, not only because of unstable political and economic conditions abroad, but also because of the many defaults which occurred on bonds issued in the '20's Of the bonds issued by countries in underdeveloped areas from 1920 to 1931, it is estimated that 40 percent were issued by countries which did not default and 45 percent were issued by countries which defaulted on most of their outstanding issues, but which adjusted their debts and are servicing the new bonds. Delay or failure of defaulting countries to offer satisfactory adjustments, however, cast a shadow over the whole field. It may be possible to take measures to improve the American market for sound foreign dollar securities. The possibilities of such action should be studied.

The effective action that the Government can take unilaterally, however, is limited. The granting of blanket tax premiums on investment abroad as compared with investment at home would be inequitable and of uncertain effectiveness. The effects of treaties and of guaranties against nonconvertibility and expropriation in stimulating a large flow of new foreign investment are also uncertain.

The prospect is that new petroleum investment over the next few years will fall sharply, and that some increase in the rate of mining investment in foreign properties can be anticipated. It seems probable that total American private direct investment abroad in the next few years will not exceed the 1947–49 average and may fall substantially short of this. Furthermore, only a few hundred million dollars, at most, is likely to be invested in underdeveloped countries outside the Western Hemisphere in properties not related to oil. Taking into account the known obstacles, and the uncertain effectiveness of the limited measures that can be taken to overcome them, it must be frankly recognized that private investment cannot be expected to solve the problem of financing development alone.

Public investment

If the external contribution to the financing of economic development is to meet the requirements of United States foreign policy, public funds will have to play a substantial role. The probable inadequacy of the total volume of private foreign investment available for most areas is not the only reason for this conclusion. Economic development requires funds for the construction of facilities to provide basic services which are ordinarily not attractive to private capital and therefore in most cases must be financed by public funds. The provisions of such facilities where they are now absent or inadequate may be expected to increase opportunities for profitable investment abroad of private capital in other types of enterprises. Public investment is also needed to assist in financing the expansion of strategic raw material production.

An effective foreign policy must thus have at its command adequate funds available for public capital assistance in the underdeveloped areas. Since economic development, soundly planned, should in most cases increase Government receipts as a result of its effects on real income over a period of years, its financing can generally take the form of loans rather than grants. Exceptions must be made where prospective improvements in productivity will still leave total production far short of basic needs.

The annual dollar amount of needed foreign lending by the United States is not large in comparison with our grant programs of recent years, but it is of major significance for the underdeveloped areas. It should be viewed as the principal Governmental instrument for providing capital assistance to the underdeveloped areas in the future, and one which will *yield a direct future return.* The servicing of development loans will generally not cause trouble in the future if we achieve the goal of an expanding free world economy, and the reasonable flow of such investment that this expanding economy requires.

The two main public institutions for providing dollar loans to underdeveloped countries are the International Bank for Reconstruction and Development, an international institution of which 49 nations are members, and the Export-Import Bank, which is an agency of the United States Government. In the fiscal year 1950, new credits of 462 million dollars to countries in underdeveloped areas were authorized by the two banks, 134 million dollars by the International Bank, and 328 million dollars by the Export-Import Bank. A total of 184 million dollars in loans was disbursed to these countries and 40 million dollars was received from them in repayments, so that there was a net capital outflow to these countries of 144 million dollars. Of this net lending the International Bank accounted for 70 million dollars, and the Export-Import Bank for 74 million dollars. In addition, ECA has made loans to European countries, many of which have benefited their dependent overseas territories (see appendix, tables 20 and 21).

This volume of operations has not been adequate to meet the basic requirements for development, as both banks recognize. Sound public investment requires both reasonable prospects for the payment of interest out of the receiving country's future foreign exchange earnings on current account, and soundly planned purposes for spending the money. These factors, rather than limitations of the resources available to the lending agencies, have been the main restrictions on the scope of public investment activities so far in the postwar period. Where adequate technical and economic justifications for loan requests are not insisted upon, the results will usually be unsatisfactory. Without careful economic analysis of a country's economy, funds may be dissipated on projects which are desired for purposes of political prestige, but which are not well suited for a country's resources and needs. Furthermore, the execution of projects may be unsatisfactory owing to inadequate technical ability.

Economic and technical assistance is thus in most cases an essential element of a sound development program and therefore of a sound lending program. This is true, not only in the detailed loan applications for specific projects, but also in the execution of these projects and in the broader field of coordinating the various elements in a nation's development planning. In the present world situation, we should give positive assistance in the formulation of development plans. Even such assistance, implemented by lending activity, is likely to misfire unless standards of performance, jointly agreed upon, are also set up. The soundness of a loan program for a particular country can generally not be established except in the total context of that country's economic position.

If basic development requirements are to be met, it will be necessary for the development financing institutions to push sound development programs aggressively, coordinate their activities, and expand the volume of their lending operations. In the next few years, the two banks should seek an annual net flow of investment funds in the range of 600 to 800 million dollars a year.

It has been the stated policy of the United States Government to place main reliance for the provision of public development loans upon the International Bank, which was created after the war for that purpose. For reasons which are more fully explained in a later section of this Report, it is essential to the success of development assistance that it be provided mainly through international institutions. This means that we should continue to regard the International Bank as the primary public institution for extending development loans.

The lending operations of the International Bank have been limited in the first few years of its operations. This has resulted partly from the slowness of member countries to realize the need for preparing economically sound development programs and properly engineered specific projects. Also, poor prospects for their dollar balances of payments and, in some cases, the prevalence of undesirable fiscal and monetary practices have cast doubt on the credit worthiness of loan applicants. The Bank authorized new credits of 134 million dollars to countries in underdeveloped areas in the year ended June 30, 1950. In order to expand the basis for sound operations, it has recently undertaken to provide broad technical assistance and advice, which includes examining the size, composition, and economic implications of a borrowing country's investment program as a whole, as well as the details of selected projects. This is one of several important steps in the right direction. If these steps are accompanied by reasonable prospects for the world flow of dollars, the credit worthiness of potential borrowers would be increased and it would be reasonable to anticipate an annual volume of dollar loan disbursements by the Bank of 400 million dollars or perhaps somewhat more, net of principal repayments.

Even though the postwar rise of prices has cut down the purchasing power of the International Bank's capital far below what was originally intended, for the present the International Bank's borrowing capacity is not a limiting factor. The marketability of its bonds is well established. With an expansion of its operations, the time will come when an increase in its borrowing capacity will have to be considered, but this is a problem for the future.

While primary reliance for public development loans should be placed upon the International Bank, it is clear that this Bank cannot bear the whole burden of extending the loans needed for a sufficient development program. The Export-Import Bank must continue to play an important role. It is increasingly important that means be found for a more effective coordination of the operations of the two institutions on which a public lending program now depends. Lack of coordination among agencies assisting developments in a given country can lead to serious waste of resources, and the relation between the two banks is one important aspect of the problem. Without coordination, the projects they finance may not fit into consistent general development programs. The conditions on which they make funds available may also differ and the presence of a second potential lender may make it difficult for the other to secure compliance with the conditions and policies it lays down to make its loans effective.

Even if the International Bank plays the primary role in development lending, there is scope for annual net lending by the Export-Import Bank in the range of possibly 200 to 400 million dollars a year. As of October 31, 1950, its uncommitted lending authority was 506 million dollars, of which 300–400 million dollars is properly viewed as a contingency reserve for emergency loans. Economic development cannot be soundly planned from year to year; development programs must be framed on a long term basis. Although funds should not be placed at the disposal of borrowers long before they are needed, borrowing countries must have a reasonable degree of assurance that if they pursue sound policies additional capital required for the further progress of the program will be available. Indeed, the ability to provide further funds is one of the major instruments for obtaining sound performance on the part of the borrower. For that reason, development financing institutions should have funds available to support development loans for at least five years ahead. In the case of the Export-Import Bank, this means that approval of Congress should be sought for an expansion of lending authority by about 1.5 billion dollars, from the present 3.5 to 5 billion dollars.

Grants for development and technical assistance

While the major instruments for the external financing of development on a continuing basis should be private and public investment, for the next few years there is also a need for public grants for development. In contrast to the large-scale grants required to assist in the recovery and rearmament of Europe, the size of grant aid needed to support development is limited. In emergency situations related to military action, as in Korea, the United States may have to bear a major share of the United Nations' burden of providing for minimum consumption and rehabilitation needs. As a general matter, however, grants to underdeveloped areas should be confined to the moderate amounts needed to finance necessary increases in productivity which the particular underdeveloped country cannot finance through loans without dangerously retarding its development.

While a country's ability to repay depends upon its foriegn exchange position, this in turn depends upon the extent to which it makes resources available for export or for producing goods which it formerly imported. Resources so used to repay loans are, of course, not available for building up domestic capital equipment. In some cases, they may constitute a significant portion of its net capital investment. Thus, a basic question for the United States in deciding whether to extend grants instead of loans is whether the need to repay external capital assistance would slow up a country's development below a rate which the common interests of the free nations require. In general, this decision must be made in the light of a comprehensive assessment of the country's resources and urgent needs. Such an assessment was the basis for deciding whether to provide loans or grants in the case of aid to the Western European countries under the ERP; the basic principle is the same in the case of the underdeveloped countries, though its application may be made difficult.

The extension of aid in the form of grants instead of loans may increase productivity in a recipient country by considerably more than would result merely from the amount of capital involved in repayment. If active steps are to be taken to attack the basic problems of the underdeveloped countries, then limited grants, extended on condition that they are effectively used, may be a spur to the governments and peoples concerned to take these steps. Grant aid of this character is an instrument of great usefulness to our foreign economic and political policy toward underdeveloped areas, especially in connection with basic agricultural problems in southern and eastern Asia.

The whole field of grants for development purposes is one for experimentation. There may be room, for example, for assistance that is contingent upon matching of funds by the government concerned. Previous ECA experience in China and now in parts of southeast Asia should provide bases for the determination of suitable program patterns. In all cases, the aim must be twofold: to make the maximum contribution to mutual security and to provide at least the initial basis for a long-term program in the field of small-scale agriculture.

As indicated above, technical assistance is a necessary basis or supplement for effective public capital assistance. It has a role, however, which is broader than this. The great need is to enable underdeveloped areas to use their own large resources more effectively by the introduction of improved techniques and know-how.

Economic development in many countries must begin with elementary steps to improve primitive production methods, health facilities, education and research, and similar activities. Such a process of improvement requires some investment, frequently in items of a rudimentary nature. Yet technical advice by itself will frequently not generate the necessary steps to make the advice effective. In some cases, even the very limited amounts of capital required may not be internally available, and a combination of capital and technical assistance may be needed to initiate the process of raising productivity and thereby to lay the basis for subsequent development through a sound lending program.

The range of technical assistance programs in which the United States participates in some fashion is extraordinarily wide. The International Bank and, to a lesser degree, the Export-Import Bank provide economic-technical missions which consult with and advise prospective borrowers as to economic development needs. The ECA in its southeast Asia program performs technical assistance functions, and the Institute of Inter-American Affairs operates in Latin America. Eight United States agencies have been providing technical assistance to the Philippine Republic alone under the Philippine Rehabilitation Act. While the Government's direct technical assistance to underdeveloped areas is being expanded as part of the Point Four Program, the United Nations and its specialized agencies also expect to expand their technical assistance activities as a result of the impetus given by the Point Four Program. In the Near East, the United Nations Relief and Work Agency for Palestine Refugees is in part a technical assistance undertaking. Ad hoc missions from the United States and from international agencies like the International Monetary Fund fall into the technical assistance category. Outside the immediate purview of the Government are a variety of privately financed technical assistance activities.

The diversity of these activities raises doubts regarding their coordination and effectiveness. There are many cases where technical assistance by itself can be of great importance. In achieving the objectives set forth in this Report, however, technical assistance can be most productive only when used as an adjunct to or implemented by programs supplying capital funds. This is partly because it is only in limited areas that significant progress can be achieved without capital of some sort, even if only simple items of equipment. Mainly, it arises from the internal political and psychological context in which most technical assistance operations take place—the limited likelihood of an adequate follow-through unless the incentive of at least marginal financing assistance is available. Especially in view of the shortage of competent personnel, it is important that the United States' efforts at technical assistance be largely integrated into the administration of other programs for underdeveloped areas and that they be directed to problems reflecting United States interest.

The Government has adopted a policy of approving and initiating only those technical assistance projects which are requested by the foreign government and in connection with which that government will make appropriate contributions and provide cooperative effort. All projects carried out in a given country are necessarily based upon agreements negotiated with its government. In most cases, a general agreement will be negotiated setting forth broad conditions governing program relationships between the United States and the recipient country in which projects may be undertaken. In addition, specific agreements will be negotiated covering each project. These policies are indispensable to secure effective operation and should be followed equally in connection with other aspects of development assistance.

The amounts of money that the United States should provide for capital assistance in the form of grants and for technical assistance cannot be estimated with confidence at this time, mainly because the extent and probable cost of needed, feasible, and effective programs have not yet been determined, and because the portion of the burden which the underdeveloped countries themselves can shoulder is difficult to estimate in view of uncertainties regarding their future foreign exchange positions. Present indications, however, are that the amount is limited—perhaps up to 500 million dollars a year for several years, apart from emergency requirements arising from military action, compared with present funds of about 150 million dollars for these purposes. As progress is made the need for capital grants should taper off, although the provision of technical assistance in connection with lending programs and on more general matters should be viewed as a continuing program. In present circumstances, without such a combined program, technical assistance in many fields is likely to be of limited effectiveness.

Development financing policies

(a) *Tying of foreign loans.* In some cases, United States loans have been "tied" to United States exports; i. e., the borrowers have been required, by administrative decision or by statute, to spend the proceeds in the United States. So far as development loans are concerned, it has not up to now made much difference whether they were tied or not, both because the total volume of development loans was small and because the goods which the borrowers wanted were not readily available outside the United States, or were available in foreign countries only at higher prices than in the United States. As the urgent need for public financing of sound development projects is recognized, however, and the volume of loans increases, the question will assume increased practical importance.

It should be our general policy to extend loans without "tying" restrictions. If such funds are not tied, underdeveloped countries will be able to buy loan-financed goods wherever they are cheapest. This freedom will afford an opportunity for Western Europe and Japan to expand export sales and dollar earnings if they are sufficiently competitive with other sources of supply. In the period of intensive rearmament, this may reduce Western Europe's and Japan's need for aid from us, ease the inflationary strain of exports on our economy, and help integrate into the pattern of the free world economy those industrial countries that can supply goods to the underdeveloped countries.

Over the longer run, when aid to Europe has ceased and the strain of defense on economic resources is reduced, a generalized policy of untied loans will not tend, as some suppose, to reduce United States exports below what they would be under a tying policy. Our total volume of exports will be determined largely by the value of our imports, private and public investment abroad, and any other financial assistance we provide, subject to the accumulation of reserves by some countries. The main effect of "untying" would be to shift the destination, and therefore the composition of some of our exports. If loans are tied, the United States exports which they finance will be those desired by the underdeveloped countries, which are largely capital goods. If they are not tied, these countries could and probably would use a part of the dollars made available in purchasing goods from the Western European countries and Japan. As a result of having more dollars, Western Europe and Japan would be able to buy more from us than they otherwise could. The main effects would probably be upon our exports to them of machinery, cotton, tobacco, and perhaps wheat. This difference in the composition of exports, as compared to their composition if loans are tied, would be desirable since it would tend to support demand for United States products likely to be most readily available here. At the same time some of these products are likely to be in shortest supply in the other industrial countries.

A generalized policy of not tying loans is also required by our policy of promoting nondiscrimination in world trade. This policy calls for the purchase of goods where they are cheapest, irrespective of the source of the funds used to purchase them. The practice of tying is inconsistent with the need to achieve optimum use of the resources of the free world and with our objective of a multilateral, nondiscriminatory international trading system. The country that is in a position to supply capital may not be the country that is in the best position to supply the desired capital goods or to supply them most cheaply.

The compelling reasons for not tying loans apply also in many cases to United States Government grants. The Congress recognized this principle in the Mutual Defense Assistance Act, which provides that military assistance may be furnished by the procurement and transfer to eligible nations of equipment, materials, and services from any source.

(b) *Financing of local expenditures.* Most, if not all, development projects involve substantial expenditure inside the borrowing country as well as abroad. They may, therefore, divert labor and materials away from production for export and away from production for domestic consumption, requiring increased imports if consumption levels are to be maintained. In both ways, these local expenditures increase the need for foreign exchange. These indirect effects upon the balance of payments may be accentuated by the secondary effects of such local expenditure in raising domestic incomes. Thus, the proportion of direct development expenditures that is incurred in foreign currencies does not indicate what proportion requires foreign financing.

For that reason, new loans should not necessarily be limited to the direct foreign costs of new development projects. Such a limitation would be desirable only if it caused the developing country to find ways of increasing the utilization of its existing resources or of increasing the amount it saves out of a given income, but in many underdeveloped countries the scope for such increases is limited. The International Bank, recognizing this fact, is permitting a selective financing of local currency costs, and the Export-Import Bank also permits the use of its funds for such purposes in appropriate cases. The same principle should be applied to grants extended for development purposes.

In connection with raw material procurement in particular, a failure to allow for such costs may unduly delay the accomplishment of United States objectives, owing to the inability of some of the foreign countries concerned to finance the local costs or to bear unaided the indirect foreign exchange drain which they cause. These indirect costs provide another illustration of the need to administer development assistance in the light of the economic position of the foreign country as a whole, rather than merely in that of the particular project being financed.

Summary of program elements

The acceleration of the development process in underdeveloped areas obviously is a more complicated and long-range process than that involved in expediting recovery in well-developed countries. The wide variation in local economic, political, and social conditions requires a diversity in methods and approach, and ingenuity and flexibility of administration. Thus each type of stimulus—private investment, international lending, United States Government loans, technical assistance, and grants—has a significant and necessary role to play, although this role will vary according to individual country requirements and capabilities. And to be effective, all of these elements must be backed up by effective political and informational policies, and must be able to operate in an environment secure against threats of aggression.

In terms of total funds available, the discussion in this Report contemplates that in the next few years perhaps 500 to 800 million dollars of private capital will be available per year for foreign investment, although this is likely to be largely limited to a few countries and types of investment; that dollar loans will be forthcoming from the International Bank and the Export-Import Bank in the range of 600 to 800 million dollars, of which half or more will be supplied by the International Bank from sources other than the United States Treasury; and that up to about 500 million dollars will be made available by the United States Government for a combined program of grants for development and technical assistance. In addition, other countries can be expected to contribute through international agencies to development activities, and a considerable volume of investment will continue to be made by Western European countries, largely in dependencies.

The provision of funds for assistance in development is obviously not sufficient; the necessary capital goods and technical personnel must also be available. While other countries can supply some of the goods required and, in the case of multilateral programs, some of the personnel, it is clear that a substantial portion must be available from the United States.

The resources which this country can make available for development are limited by other pressing demands on its resources. Thus we must balance the priorities of need in this field with priorities elsewhere, in the light of our total resources and commitments. In this balancing process, an understanding is essential of the importance, to ourselves and to the free world as a whole, of continuing and accelerating progress in the underdeveloped areas which contain a major part of the world's population and natural resources. The general range of magnitudes indicated in this Report is suggested as necessary to achieve substantial progress and at the same time to be within a proper allocation of our own resources.

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V. Commercial and Financial Policy

The reduction of customs barriers and the freeing of world trade from the shackles of currency and quantitative trade restrictions are important objectives of United States economic policy. These objectives have been dictated not only by our own economic interests, but also by the firm conviction that the creation of healthy economic conditions and the development of strong and self-supporting economies in the nations of the free world depend to an important degree upon the existence of freely competitive markets in international commerce and the achievement of an effectively functioning, multilateral system of international trade and payments. Stated another way, this is a system of international trade competition in which trade is free of quotas, exchange controls and discrimination, and in which tariffs have been substantially reduced from present levels.

If an all-out mobilization effort were undertaken, normal trade among the democratic countries would necessarily have to give way to over-all systems of export and import controls and the joint allocation of scarce commodities and shipping. Short of such an effort, however, a substantial volume of trade and production will still be conducted in normal peacetime channels. The development of an economical pattern of trade is essential to the efficient utilization of the resources. Such a pattern of trade cannot exist where a substantial proportion of the world's commerce is directed into artificial channels by means of discriminatory arrangements employed as a means of promoting commercial advantage or necessitated by the absence of an adequate system of international payments.

The reappearance of commodity and transportation shortages resulting from the expansion of defense production will inevitably involve the need for some additional import and export controls on scarce commodities. A rapid bidding up of world prices with the bulk of the scarce supplies going to the highest bidder is likely to prove harmful to the common defense effort and to the economic welfare of large groups of peoples. On the other hand, there is a real danger that the defense effort will lead many countries to impose unnecessary barriers on their trade. Such a development would be harmful both to the immediate objective of mobilizing resources for common defense and economic welfare, and to our long-range objective of achieving the highest possible degree of freedom in the commercial and financial relationships among the nations of the world. It is now even more essential that the resources of the non-Communist world be employed as efficiently as possible and that protective and autarchical practices which serve only the narrow interests of specialized groups be abandoned. It is therefore necessary that the United States continue to press for trade liberalization and tariff reduction through the machinery of the General Agreement on Tariffs and Trade and, when the charter has been ratified, through the International Trade Organization.

The successful reestablishment and maintenance of a system of multilateral trade and payments depend in substantial measure upon the volume of dollars which becomes available to the rest of the world through United States imports and foreign investment. Because of the strategic position of the dollar as a medium of international settlements and international currency reserve, a large and expanding flow of dollars is an essential element of an international environment favorable to worldwide multilateral trade. The most important source of dollars for the rest of the world is our imports of goods and services. United States domestic and commercial policies must be regarded therefore as among the most important factors in determining the volume and character of peacetime world trade.

We need a high level of imports, not only for the achievement of America's foreign economic objectives and the carrying out of our international responsibilities, but for our own economic welfare as well. This Nation has nothing to fear and much to gain from liberal trade import policies. While this is true under normal circumstances, it is especially true at the present time, when we need to augment our already strained sources of supply by importing the goods and services of other nations.

A. U. S. Import and Domestic Policies

The need for expanded imports

The failure of United States imports of goods and services to keep in step with the growth of our national output has seriously aggravated many of the international economic difficulties that have beset the world in recent years. Although the physical volume of United States output increased 69 percent from 1929 to 1949, the quantity of merchandise imports increased only 4 percent. The quantity of imports of finished manufactured goods was actually less in 1949 than in any of the years 1926 to 1930, and less than in the years 1936 and 1937, despite the great expansion in United States output. Although the value of United States imports rose by 60 percent from 1945 to 1949, this rise was largely the reflection of price increases. In quantity, United States imports had increased only 12 percent since the end of the war (see appendix, table 22).

The main reasons for the failure of imports to expand more rapidly since the war are fairly clear. Wartime destruction and postwar political and economic disorganization abroad have in many cases reduced foreign supplies available for export to the United States. New substitute products such as nylon have taken over markets formerly served by imports. Domestic capacity was greatly enlarged during the war to produce goods formerly imported, and much of this capacity remains in operation. Finally, foreign businessmen have lacked incentive to sell in the American market since they are frequently able to obtain higher prices with less selling effort in soft currency markets or at home.

Prior to the Korean crisis and the decision to accelerate rearmament, it was apparent that sound and lasting solutions of many of the economic problems of the free world were unattainable without a substantial increase of United States purchases from abroad. It now appears that rearmament in the United States will lead to sizeable increases in imports, particularly of raw materials, and thus will increase the dollar earnings of other countries. On the other hand, although rising prices for raw materials will greatly benefit certain exporting countries, other countries, heavily dependent on imports from the United States, will be adversely affected by an increase in our own export prices. The real value of current foreign gold output and of gold and dollar reserves will decline. Furthermore, rearmament in Western Europe will have the effect of increasing import requirements and of diverting resources away from production for export. While it is virtually certain that the aggregate dollar earnings of the rest of the world will rise, foreign dollar requirements will also rise, and the net dollar positions of a number of countries may be adversely affected by the new trend of developments.

Although United States imports will increase under the impact of rearmament, our need for imports will increase even more rapidly. The outlook for the immediate years ahead is one of labor and materials shortages, cut-backs in nonmilitary production, and a persistent upward pressure on prices. Increased imports may alleviate some of these shortages and help to keep inflationary pressures in check. Nor is it necessary at this stage, when nearly all industries find buyers clamoring for their products, to maintain high import barriers in order to safeguard the position of import-competing industries.

There is a need to reduce import barriers not only to augment our already strained sources of supply but, by increasing the possibility of dollar earnings by Western European countries, to limit their requirements for economic assistance from the United States in support of their own enlarged military programs. It should be noted that American import barriers by no means constitute the only obstacle to the expansion of United States imports. In some cases, our import restrictions may be less of an obstruction than the absence of an economic environment in other countries which will encourage their businessmen to direct their energies to the expansion of dollar sales.

Under circumstances in which the aggregate capacity of the free nations is inadequate to meet all the demands placed upon it, a reduction in United States import barriers will facilitate closer economic integration between the United States and its allies and encourage the most efficient use of the productive resources of the free world. Present circumstances also offer the possibility of moving toward reduction of import barriers with minimum disturbance and distress to American agriculture, business, and labor. In so doing, a contribution can be made both toward the solution of current difficulties and toward the eventual establishment of an efficient international trading system.

Tariff policy

The cornerstone of United States tariff policy since 1934 has been the reciprocal trade agreements program, under which the United States has negotiated, on a reciprocal basis, extensive reduction in United States import duties. In addition, the protective effect of some duties has been diminished by the increase in the United States price level. Despite these reductions, however, many United States imports are still subject to rates of duty of 25 percent or more and, in some cases, to duties of over 100 percent (see appendix, table 23).

Under present legislation, which expires on June 12, 1951, the President is given authority to lower duties on particular products by 50 percent from the rates existing on January 1, 1945. In the agreements reached since 1945 but prior to the Annecy negotiations, the full 50 percent reduction was made on products accounting for 17 percent of our 1947 imports, while reductions of from one to 49 percent were made on 40 percent of our imports and no reductions were made on 43 percent. Further use of this authority was made at the Annecy Conference, and additional reductions are expected to be negotiated at the conference in Torquay, England, which began in September 1950.

The trade agreements program has in general been administered with prudence, good judgment, and, at the same time, with a strong sense of purpose. The organizational arrangements are designed to assure that all valid interests are given full consideration, and that the skills and judgment available in the various agencies of Government are brought to bear on the formulation of policies. The administrative machinery has been refined and improved over the 16-year history of the program. It is important to the success of this program that this process continue, that greater expedition be achieved in handling certain of its aspects, and that continuing efforts be made to see that the obligations mutually undertaken are carried out. This program is admirably designed to continue to serve as the vehicle for the long-run tariff policy of the United States.

The multilateral negotiations this year at Torquay offer the first opportunity since the trade agreements program was instituted to scale down United States tariffs on those classes of goods of which Germany is the principal supplier. While the decision to invite Germany to Torquay was a wise one, the unwillingness of some participants to consent to the inclusion of Japan can only be regretted. If Western Germany and Japan are to be integrated politically and economically with the free world, which mutual security requires, they must be given an opportunity to support themselves through trade with free nations. The Torquay negotiations will also offer an opportunity for the scaling down of Cuba's tariff preferences in favor of the United States; the substantial reduction of these preferences would greatly improve the ability of European countries to earn dollars through sales to Cuba.

The expiration of the Trade Agreements Act on June 12, 1951, should be taken as the occasion for a considerable extension and strengthening of this basic legislation. In the various enactments since 1934 the authority has been granted four times for 3 years, twice for 2 years, and once for 1 year. In view of the fact that the planning, preparation, and execution of multilateral tariff negotiations is a long process, and that the policies and procedures of the trade agreements program are by now firmly established and well understood, an extension for 4 years would greatly increase the effectiveness and stability of our fundamental tariff policy while preserving the important safeguard of periodic Congressional review. A study should be made of the amount of tariff reduction authority remaining under the existing 50-percent limit. If additional authority is needed to carry out an effective program, it should be granted at the time the act is renewed.

Procedures under the trade agreements program, however, are not designed to cope with the kind of emergency situation represented by the current rapid increase in military expenditures, with its attendant inflationary pressures, materials shortages, and need for expanded supplies from all sources. What is required is temporary emergency legislation to make possible quick and unilateral reductions in specific tariff rates on commodities which are scarce and when conditions of inflationary pressure exist. Authority might be granted to the President for a limited period of time to reduce or eliminate any rate of duty on these grounds, provided that such action would not cause serious injury to any American industry or economic group. Alternatively, the grant of authority for temporary reduction might be made for an indefinite period, with the proviso that it could be withdrawn at any time by joint resolution of the two houses of Congress. There are other possible formulas that could achieve the desired end and that deserve consideration. Congress should be requested to provide the necessary emergency authority at the earliest opportunity.

Customs and inspection procedures

The view is widely held, both here and abroad, that the laws and administrative procedures connected with the admission of imports into the United States are more onerous and restrictive than the customs duties themselves. While some of the instances cited to support this claim have proved on investigation to be either exaggerated or erroneous, there is little question that these laws and regulations do in fact constitute a major impediment to United States imports. Although some of these barriers have arisen inadvertently as old laws have become obsolete in the light of present circumstances, others were consciously designed to obstruct imports by involving them in a maze of cumbersome technicalities.

The importer who tries to bring foreign goods into the United States confronts many obstacles, of which only a few are mentioned here. *First*, he may become involved in classification troubles. There are several thousand headings in the American tariff legislation, under some one of which each imported product must be classified in order to ascertain the applicable rate of duty. Sometimes the tariff classifications are simply capricious or arbitrary. Thus imported cotton carpets of a certain type are liable to a 10-percent duty, unless they are fringed at the ends, in which case they become liable to a 45-percent duty. Not only is the importer frequently uncertain as to how much duty he will have to pay on his goods until they are actually entered at a United States port, but sometimes the classification is changed and in addition duty assessed *after* he has sold the goods in the United States market. The same goods may receive one classification at one port of entry and another classification at another port of entry.

Second, the importer must endure the hazards of valuation or appraisement. To assess an ad valorem duty, it is necessary to place a value on the goods. This value is not, as is sometimes assumed, the actual price which the importer paid for the goods, but is computed under a complicated formula. Valuation of a product may take several years and may necessitate an extensive foreign field investigation by customs officers of transactions between parties unknown either to the importer or to his foreign supplier.

Third, the law not only requires that most imported goods be clearly marked to indicate the country of origin, but also lays down a number of particularly onerous special marking requirements applicable to particular goods. If they are not properly marked when they enter at the customhouse, they may not be remarked, but must be disposed of by exportation or destruction.

Fourth, the importer must surmount a further series of hurdles comprising the federal quarantine, inspection, labeling, grade, standards, and related requirements. These laws and regulations are properly not regarded as objectionable import barriers, since most of them are designed to guard against the importation of harmful pests, of plant and animal diseases, of impure foods, drugs, and cosmetics, and of goods so labeled or packed as to work a deception on American consumers. Moreover, these regulations are generally applied to both imports and domestic production on the basis of the same criteria, and the administrative agencies usually resist efforts to convert these regulations into devices for deliberate import restriction. In some cases, however—usually inadvertently but sometimes by design—these laws and regulations appear to operate to restrict imports more severely than is necessary to realize the proper purposes of these programs.

Passage by Congress of H. R. 8304, the proposed Customs Simplification Act of 1950, would go a long way toward correcting several of the more burdensome features of present-day customs procedure. This bill, prepared by the Treasury Department after long study, would greatly simplify valuation procedures; it would repeal the various special marking requirements, but not the general country-of-origin requirement applicable to all imported articles; and in many other ways it would reduce or eliminate indirect barriers to imports, simplify and expedite customs procedure, and reduce its cost. This bill should promptly become law.

The major legislative problem left untouched by the Customs Simplification Bill is the problem of tariff classification. So long as the present outmoded and unwieldly classification system remains, customs officers must continue arbitrarily to assign products to categories which were defined before the products were invented, thus giving rise to long and costly litigation and attendant uncertainty.

However, while the need for a modern and simplified system is obvious, there are so many difficult technical problems connected with such a project that a detailed study should be made of these problems before a comprehensive reclassification is undertaken. The Tariff Commission should be directed to prepare a study, in collaboration with the other agencies involved, of the feasibility and desirability of a general reclassification, and if the project is found to be both feasible and desirable, to make recommendations concerning the proper legislative and organizational arrangements for such a reclassification.

Many of the laws in this area allow a high degree of administrative discretion. Accordingly, there is a wide latitude for eliminating unnecessary barriers by improvement in administrative attitudes and procedures. Some of the agencies involved have demonstrated since the war a growing awarenesss of these problems, and a willingness to correct unduly burdensome procedures and policies. The Treasury and the Customs Bureau particularly have taken important and productive steps in this direction.

Much, however, remains to be done. Every reasonable step should be taken to minimize delay in inspecting, testing, and analyzing goods. Technical standards should be constantly reexamined to assure that they are really no more rigid and perfectionist than is required by the primary necessity of safeguarding the domestic health and welfare. Procedural requirements should be studied to make certain that they have not been drafted solely with the trade practices and other circumstances of domestic producers in mind, with the result that foreign sellers find it both difficult and expensive to comply with them.

Every effort should be made to disseminate detailed information concerning procedures and standards upon which foreign exporters can rely; to give binding rulings; and, in so far as possible, to give these rulings promptly and in advance of importation. Plans should be pushed for the negotiation of international agreements establishing uniform inspection standards and procedures, in order that United States inspectors may be able to rely at least in part on the findings of inspectors in the country of origin. Exporting countries should be urged to avail themselves of the opportunities offered by P. L. 402 (Smith-Mundt Act) and other technical assistance legislation to obtain the services of technical experts in the field of food, drug, and sanitary regulations or to send their own officials to the United States for training in this field. An excellent precedent for a broad program of correcting misconceptions in the minds of field agents and inspectors was the recent action of the Secretary of the Treasury, who assembled customs collectors and appraisers in order to explain to them why the national interest required that we expand opportunities for foreign exporters to sell in the United States market.

Discrimination against imports in Government procurement

The Federal statute books abound with legal requirements that Governmental procurement agencies give preference in their purchasing activities to goods produced in the United States—preference over and above the automatic preference which is created by the United States tariff laws. Thus the United States Government is put in the embarrassing and inconsistent position of discriminating against foreign goods in its own purchasing activities while at the same time urging an expansion and liberalization of international trade on a nondiscriminatory basis.

The basis of this discriminatory policy is the "Buy American" Act of March 3, 1933, which provides that only materials produced or mined in the United States, and only manufactured goods made in the United States from United States materials, shall be acquired for public use. This provision does not apply (1) if the goods are acquired for use outside the United States, (2) if the materials are not available in the United States in sufficient commercial quantities and of a satisfactory quality, (3) if the cost is "unreasonable," and (4) if the head of the agency concerned determined in a particular case that the policy is "inconsistent with the public interest."

The "unreasonable cost" provision has been interpreted to mean that domestic goods must be purchased unless the domestic price is more than 25 percent higher than the foreign price, after payment of import duty. Generally, agency heads have been reluctant to make a finding that preference for domestic procurement is "inconsistent with the public interest."

The "Buy American" restrictions apply generally to all Federal Government procurement, including procurement of strategic materials for stockpiling, as well as to purchasing by non-Federal Governmental bodies, such as local housing authorities and state highway bodies, which receive United States funds. They apply also to purchases of raw and semifinished materials used by Government suppliers in producing goods for Government account. In addition, they also tend to discourage the purchase of imported goods by general dealers and distributors; many such dealers prefer to handle products which they can deliver both to private and Government contractors, since it is troublesome and expensive to segregate the imported goods which can be delivered only to the former. Finally, many states and local governments have followed the lead of the Federal Government in giving preference to local suppliers.

The "Buy American" principle is not only in direct conflict with the basic foreign economic policies of the United States, but it now threatens seriously to increase the cost and hamper our efforts in strengthening our military security, and also to intensify inflationary pressures in the United States. By denying to military procurement officers and to Government contractors the right to buy goods where they can be obtained most quickly and most cheaply, the "Buy American" limitations will handicap the accelerated military production program and increase its cost. They will also accentuate the shortages and inflationary price pressures which are appearing in the United States economy. In addition, the chances of fulfilling the greatly expanded stockpiling program can only be diminished by the "Buy American" restrictions on stockpile procurement. At a time when the primary objective of domestic economic policy is to increase the supply of goods available to the United States economy and to reduce demands therefor, the "Buy American" principle works in precisely the opposite direction.

For these reasons, the Congress should promptly repeal the "Buy American" Act of 1933 and subsequent legislation which extends and tightens the "Buy American" principle. In the meantime, administrative action should be taken as permitted by legislation to minimize harmful effects.

Agricultural policy

A basic objective of United States agricultural policy is to improve the economic position of the American farmer by increasing his real income. Given this objective, agricultural policies tend ordinarily to be formulated predominantly within the framework of domestic economic problems, circumstances, and considerations. Despite its preeminently domestic orientation, however, our agricultural policy has broad ramifications which make it in fact, if not by design, a fundamental part of our foreign economic policy. By and large, those aspects of our peacetime farm policy which bear most directly on our foreign relations were not formulated with particular foreign policy objectives in mind, but have, in the main, developed out of the basic elements of our farm programs. It should not be surprising, therefore, that there are important points of conflict between our farm programs and our foreign economic policies.

The foreign policy implications of our agricultural programs are of great importance because of the central position of the United States in the international agricultural economy. In 1949 or 1949–50, for example, the United States supplied about 39 percent of the world's wheat exports, about 49 percent of the cotton exports, and 41 percent of the tobacco exports. Likewise, the United States took 28 percent of the world's sugar exports and 21 percent of the wool exports. Thus United States agricultural policy is a matter of vital concern to the rest of the world. We should continue more vigorously to seek to reach both our domestic agricultural and foreign objectives, in ways which will achieve a closer compatibility between them.

A present keystone of our agricultural policy is the price-support program, under which the Federal Government maintains a floor under the prices of many farm products, either through direct public purchases or through nonrecourse loans. In wartime or other emergency circumstances when the demand for agricultural products is very great relative to production capacity, price supports have served the very useful purpose of minimizing farmers' risks and thus encouraging maximum production. The use of price supports during and immediately after World War II was a major factor in making possible the enormous increases in our output of farm products, and in providing supplies of food and fiber which saved many foreign countries from extreme hardship.

At the other times, however, in the absence of inflationary pressures, price supports have tended to maintain a level of farm prices which tend to encourage a volume of production of many commodities in excess of the amount saleable at the support price. Unless output is restricted, a surplus is produced which cannot be sold in the market at the support price, and which must necessarily be acquired and held by the Government. In this situation, Government stocks tend to grow unless the market price rises above the support price, in which case the Government is permitted by law to sell its holdings in the market, or unless the Government is able to dispose of its stocks at cut prices, plus certain other charges, for special uses which will not compete with sales in the regular market.

When total stocks in relation to prospective production and requirements for a price-supported commodity reach the point at which, under present legislation, it is no longer considered feasible to allow stocks to increase further, controls become necessary. These controls take the form of acreage allotments, marketing quotas, and marketing agreements or orders, restricting the amount which each producer is allowed to sell. The purpose of these measures is to reduce the supply of the commodity to the amount which can be sold in the market at the support price, so that Government holdings need not increase further.

Given these basic components of our long-range farm policy, certain consequences follow, which have a direct bearing on our foreign economic relations. *First*, the increase in prices of some important agricultural exports, which often results from the provision of price supports, raises the cost of vital imports to foreign countries and thus tends to reduce their real incomes. This is one factor which has often led foreign countries in self-defense to expand their own frequently inefficient production of agricultural products, thus reducing their reliance on imports, and to encourage the use of substitutes for imports, such as synthetic fibers instead of cotton. Both of these reactions tend ultimately to reduce the foreign market for United States agricultural exports and to involve a wasteful use of productive resources.

Second, when price supports raise domestic prices above the world prices, imports of internationally-traded commodities would begin to flow into the United States in abnormally large volume unless special measures were applied to control imports. In the absence of such measures, the United States Government would be supporting, not only the domestic price, but the world price as well. Consequently, the price-support program has led to the imposition of import quotas and import licensing of a number of agricultural products. Moreover, in order to facilitate the liquidation of stocks of some commodities acquired through support operations, absolute embargoes have been applied to the importation of these products. Some, at least, of these restrictions reduce imports below the levels which would prevail in the absence both of domestic price supports and special import controls, which may impair the real income of the United States and of foreign countries or increase their need for outside aid.

Third, in these cases in which the support program raises domestic prices substantially above world prices, United States exports will diminish or disappear at the same time as governmental stocks are increasing. When this happens, a variety of pressures are brought to bear to induce the Government to get rid of its surpluses abroad. Sporadic subsidization of exports, through special payments to exporters or through the sale of Government stocks at cut prices, or special provisions in our foreign aid programs, are methods which are occasionally used for this purpose.

Basic changes in farm policies must of course be evaluated in relation to domestic as well as foreign considerations. In the further development of these policies, however, due weight should be given to their importance on our foreign economic relations. We should explore possible lines of change which would seem likely to improve the performance of our farm policy on the basis of both foreign and domestic criteria. We should seek methods of protecting the price and income position of our farmers which can reduce the necessity and the pressure for import licensing, quotas, and embargoes, and for export subsidies and other foreign disposal operations. We should consider the possibility of adopting a system of accumulating necessary stocks of storable commodities as determined by domestic and international needs and not associated with price supports. We should not throw a disproportionate part of the burden of our agricultural adjustment on the rest of the world.

Even in the absence of fundamental changes in our farm policies, it should be possible to apply the related foreign trade measures in a somewhat less restrictive manner and as far as possible on the basis of international agreements. Import embargoes should be eliminated at the earliest possible moment, except where imposed for sanitary or similar reasons. Import quotas should not be established below the level that would bring in as high a quantity of imports as would enter in the absence of price supports and import controls. Export subsidies should not be used to capture a larger share of the world market than we enjoyed in an appropriate base period when no subsidy was granted. Foreign procurement of strategic materials should not, through the device of barter deals, be used to force the export of surplus agricultural commodities. Where it is thought desirable, as in the case of sugar, to safeguard the position of domestic producers not only with import quotas and a tariff, but with a direct subsidy as well, the *growth* of the domestic industry should not be encouraged, except in limited cases where security reasons may be clearly involved.

Shipping policy

The United States dollar payments and receipts for ocean shipping and related services constitute an important element in the United States balance of payments. In 1949, of the 16 billion dollars which foreign countries paid to the United States for goods and services, more than 1 billion dollars were in payment for shipping and related services. Likewise, of the 9.7 billion dollars which foreign countries earned by selling us goods and services, about 600 million dollars were earned on shipping account. Thus, on balance, other countries paid us about 500 million dollars more than they earned from us on shipping account. Although this surplus declined substantially in the first half of 1950, it contrasts with the traditional deficit which the United States had on shipping and related services in the 1930's (see appendix, table 24).

In the early postwar years, the high earnings of United States ocean shipping resulted not only from our large merchandise exports, but also from the fact that foreign merchant fleets had been greatly reduced in size by wartime destruction and from the enormous postwar backlog of cargo; although the United States in 1939 had only 14 percent (gross tonnage basis) of the world merchant marine, it had 50 percent in 1946. But the reconstruction of foreign fleets since the war has not reestablished the prewar participation of foreign vessels in United States ocean-borne foreign trade. American flag vessels carried 50 percent of this trade in the first nine months of 1949, as compared with 27 percent in 1937. The present importance of American flag ships in our foreign commerce is not explained by a shortage of foreign shipping, but by United States governmental policies toward our merchant marine.

Because of the vital relationship between our peacetime shipping position and our wartime requirements for merchant shipping, governmental policies toward our merchant marine must be formulated primarily in the light of our national defense requirements. There is thus a partial incompatibility between the goal of increasing competition in the sale of shipping services and the goal of insuring the wartime availability of a large and efficient United States merchant marine. Wherever a clear incompatibility arises, the conflict must be resolved in favor of the valid security interests of the United States.

United States protective policy in the shipping field takes the form mainly of operating subsidies and cargo preferences. Subsidy payments are made to ships on regular foreign trade routes and are not designed to guarantee profits to ship operators, but are calculated to make up the difference between United States flag wage, subsistence, insurance, and maintenance costs, and those of foreign flag competitors. Cargo preferences are provided by several acts of Congress requiring that certain types of Government-financed cargoes move wholly or partly in United States flag vessels. These include all shipments for the use of the Army or Navy, and 50 percent of the cargoes financed by Government loans or by the major Government grant programs. With the extension of the foreign economic operations and aid programs of the United States Government since the war, these cargo preferences have become a major factor in enabling American shipping to retain a large share of foreign commerce.

The two basic policy questions in the shipping area are, first, the question of the minimum size of the United States merchant fleet which is necessitated by our national security interests, and second, the question of the most suitable means for assuring the maintenance of a fleet of that size. Our operating fleet of over 14 million deadweight tons is supplemented by a reserve fleet of more than 21 million deadweight tons, and by a considerable number of ships under American ownership but flying the flags of friendly foreign nations. Furthermore, plans are being developed, through the North Atlantic Treaty Organization, for the pooling of the tonnage of all member nations in the event of war. This pool, which is part of a broader plan to mobilize efficiently the wartime economic and military resources of the member countries, would make available to the United States and its allies an overwhelming preponderance of the world's tonnage in being, and should obviously be taken into account in computing our requirements. Estimates of shipping requirements and availabilities, taking account of all of these factors, are now being prepared by the National Security Resources Board and other Government agencies.

It should become a basic principle of United States shipping policy that governmental protective and subsidy measures will not be used to maintain in operation a merchant fleet or any class of vessels in excess of the size authoritatively determined to be required for the purposes of national defense. To maintain in operation by governmental protective measures a fleet in excess of this size would be a needless burden on the American taxpayer, a stimulus to the inflationary forces already at work in the United States economy, an unnecessary handicap to the efforts of foreign maritime nations to achieve a self-supporting economic status, and an obstacle to the most efficient use of the productive resources of the free world. If the adoption of this policy should at any time require a curtailment of protective measures, the United States Government should, under suitable safeguards, relax present barriers to the transfer of American flag vessels (except special National Defense vessels) to foreign registry.

No matter what the security size or composition of the United States fleet should be, however, the device of cargo preferences is a highly undesirable means of achieving it. Cargo preference is, first of all, a concealed subsidy, and thus not subject to the scrutiny and supervision which is accorded to open subsidies. By requiring that loan and aid shipments move in United States vessels, even though the recipient country is able to transport the goods in its own or other nondollar vessels, we have had to lend or give to the recipient country additional dollars sufficient to meet the dollar freight charges. Likewise, by denying to foreign vessels the right to compete for Army and Navy cargoes, we have held down foreign dollar earnings and thereby increased the need for foreign dollar aid. Thus cargo preferences have in fact been indirect subsidies to United States shipping which are borne ultimately by the United States taxpayer. Second, cargo preference is a blunt and capricious instrument for maintaining a fleet of security size. The volume of United States shipping kept in operation through cargo preference is wholly a function of the extent of United States foreign economic operations and aid programs, and thus is completely unrelated to estimated security requirements. Under the rules of cargo preference, fluctuations in foreign economic operations and aid programs could reduce the active fleet below security size as readily as they could maintain it above that size. Finally, the cargo preference policy tends to relieve some of the pressure on ship operators to compete in service and rates, and it tends to encourage the adoption of similar flag discrimination policies by other maritime nations, thus impairing the efficiency with which total shipping resources are utilized.

The most direct course of action would be the complete and unilateral abolition of cargo preferences, accompanied by the extension of direct operating subsidy payments to the degree necessary to maintain a security-size fleet in operation. However, this would leave the United States merchant marine in a position in which it might be unable to obtain a sufficient volume of export cargo, because of the extensive application of similar direct and indirect flag preferences and discriminations by other governments. For this reason, it is recommended instead that the United States move through the projected Inter-governmental Maritime Consultative Organization to negotiate with other governments reciprocal relaxations of direct and indirect flag discriminations. This will be expedited by enabling legislation by the Congress. The United States should offer to abandon completely the policy of cargo preference in return for similar and fully effective undertakings by other governments. The successful conclusion of such agreements is urgently necessary to correct the damage which has been done to the efficient use of the world's shipping resources by these policies of flag discrimination. If these negotiations are successful, the United States should stand ready to assure the maintenance of a security size fleet by an extension of direct operating subsidy payments.

The necessity of maintaining a United States shipbuilding industry capable of being expanded to meet wartime construction requirements is a matter which merits immediate attention. The provisions of the Merchant Marine Act are directed toward the maintenance of this potential by the construction of ships for subsidized operations on essential routes in foreign trade. In other words, the shipyards were made a byproduct of the subsidized vessels. At present, however, the shipbuilding industry faces a dangerously low level of activity. Moreover, although we can rely on the availability of foreign vessels through the shipping pool in wartime, we must continue to expect the United States shipbuilding industry would bear the brunt of new wartime construction, since we have the greatest production potential and are the least vulnerable area. It is essential, therefore, that we maintain United States shipbuilding facilities which, together with the allied fleet in being and in reserve, are capable of being quickly expanded to the level necessary to supply total wartime shipping needs including replacements.

B. Commodity Controls

The danger that impending shortages of primary commodities might lead to a senseless scramble for supplies for military and nonmilitary production both here and abroad and for the stockpile—with the inevitable effect of such a scramble on the level of prices—has already been recognized in part, and steps will be taken to curtail the least urgent nonmilitary demands in the United States. Similar measures will be necessary in other countries. Thus far, however, no machinery has been established to assist in obtaining an equitable and efficient international division of supplies. In the absence of such machinery, it is very probable that supplies of some vital commodities will be distributed by competitive bidding, with results that will be neither equitable nor consistent with the needs of the common defense of the free world. The price effects of an undisciplined rush for materials, moreover, would impose severe strains on the balance of payments positions of some countries.

Consequently, it is important that methods of international collaboration be rapidly developed for the purpose, during the period of rearmament, of guiding supplies of scarce materials among the free nations, in the manner best calculated to contribute to the common defense. Actual procurement for the stockpile should be subject to the priorities so determined. In this connection the importance of promoting greater production of scarce materials should again be emphasized.

The pressures on the limited export supplies of industrial products will also increase. In the case of the United States, increased demands arising from the direct and indirect effects of the domestic rearmament program will be reinforced by the expansion of Western European defense expenditures and probably by increased demand from other countries made possible by a rise in their dollar earnings. Normally, when demand increases relative to supply availabilities, the resulting price rise helps to bring about an increase in production or a shift in demand to substitute commodities. Such adjustments take time, however, and a competitive bidding up of world prices with the bulk of the supplies going to the highest bidder may prove harmful to the defense effort and to the economic welfare of large groups of peoples.

While it would be undesirable to substitute comprehensive allocation and export controls for the operation of market forces over the entire area of international trade, domestic priority and allocation powers will probably need to be supplemented by a broadened use of export controls, which are now used chiefly to limit shipments of certain types of commodities in the interest of national security. In the administration of such controls as may be necessary, steps should be taken to assure the delivery of goods required by other countries for purposes that support broad United States interests. We should also attempt to develop cooperative action of this nature with Western Europe. Obviously the use of interferences with the normal flow of international trade should be held to the necessary minimum.

This policy applies not only to goods required for the production of essential raw materials, but also to goods required to support the broader elements of an economic development program. Because these programs are an essential element of our foreign policy, their material requirements must be taken into account in the operation of any allocation and export controls that may have to be imposed in the United States.

C. Currency Convertibility and Trade Liberalization

Except for the allocation of commodities in world-wide short supply, exchange and trade controls on current transactions are, in general, employed for three types of purposes: (*a*) to limit or direct the total demand for foreign exchange in relation to the available supply, (*b*) to protect a particular domestic industry or farm commodity or to foster industrialization, and (*c*) to direct trade into particular geographical channels, either for the purpose of achieving some purely commercial advantage or as a means of avoiding payments in gold or hard currencies. The first two purposes are dominated in a large measure by the structure and condition of the domestic economy of the country employing the controls. Thus, if inflation is increasing a country's imports and reducing its exports or if it has decided to foster an expansion of domestic production by keeping out imports, it may apply trade and exchange controls. The third purpose generally involves cooperative action on the part of two or more countries to discriminate in favor of one another. Moreover, where inconvertible currencies are used for making international payments, many nations are forced to purchase their imports from the countries where their exports are saleable, regardless of price and other commercial consideration.

The use of exchange and trade controls to limit the total demand for foreign exchange arose in part from the economic dislocations arising out of World War II. With severe shortages of goods of all kinds existing within certain countries, there was bound to be both an abnormal demand for imports of consumers' goods and a heavy demand for equipment and raw materials for reconstruction. On the other hand, the supply of foreign exchange in these countries was inadequate because of the low level of exports It would, of course, have been possible to equate demand and supply for foreign exchange by permitting exchange rates to fall to very low levels, or through severe deflationary action.

In the circumstances existing immediately after the war, however, rationing the limited foreign exchange through increasing the price of foreign currencies, i. e., by devaluation, would have brought about a sharp rise in the prices of essentials, thereby threatening internal inflation and instability, while those having high incomes could have continued to import luxury goods. The attempt to reduce the demand for foreign exchange by means of deflation would on the other hand have tended to interfere with the recovery of production and necessitated a curtailment of investment for reconstruction. But with the expansion of production and exports and the improved dollar position of most countries of the world, rapid progress toward the elimination of exchange and trade controls is possible if countries are willing to adopt appropriate domestic economic policies.

The question of import restrictions on the part of the underdeveloped countries undergoing rapid economic development presents a special problem. Unlike the modern industrialized countries, the underdeveloped countries are unable to raise enough capital out of local saving and, in many cases, lack modern fiscal machinery for absorbing purchasing power. Frequently foreign exchange receipts accrue in the hands of a few exporters who use them for luxury imports or for investment abroad as they choose. Moreover, large development programs give employment to workers previously living on subsistence farms, and the wages paid to them create new demands for goods available only from abroad. As a result, many underdeveloped countries feel a need to employ exchange controls and multiple exchange rate systems in order to channel their available exchange resources into productive uses and to hold down the cost of essential imports.

The use of trade and exchange controls for the protection of the balance of payments and for encouragement of economic development may involve a serious barrier to the development of commercial trade and may interfere with the best use of resources in connection with the common defense effort. While recognizing the difficulties involved in achieving balance-of-payments equilibrium in a world characterized by rapid political and economic change and efforts to achieve rapid industrialization, countries should be encouraged to adopt the necessary monetary and fiscal measures which can assure sound currencies and obviate the necessity of direct trade and foreign exchange controls, including multiple exchange rates.

Progress in this direction can best be achieved through the International Monetary Fund, the General Agreement on Tariffs and Trade and the proposed International Trade Organization. While the ITO rules are quite liberal in their treatment of controls employed both for over-all balance-of-payments reasons and for fostering industrialization in underdeveloped areas, the charter of the ITO rightly rejects the use of exchange and quantitative trade controls for purely protective purposes. The United States should work for the elimination of discriminatory trade and exchange practices through the IMF and GATT, and should become a member of the ITO.

Trade and exchange controls discriminating between sources of supply have in general arisen from either (*a*) the need for utilizing inconvertible currencies which have been accepted for exports that could not be sold for convertible currencies, or (*b*) the desire of a country to make purchases with its own currency in a manner which will not give rise to a gold or dollar drain, or (*c*) the desire of countries to achieve a purely commercial advantage or closer political ties. In the case of most countries whose currencies are not employed in the financing of international trade, the need for discrimination arises from the first condition, namely, their inability to sell their exports for dollars or convertible currencies, or their desire to utilize currency balances which have been built up in the past as a result of such sales.

Most countries outside of the dollar area will not be able to remove their discriminatory controls until sterling and perhaps a few other currencies employed in international trade, i. e., the key currencies, have become convertible. On the other hand, key currency countries will not be able to make their currencies convertible until their competitive position in third markets is strong enough to permit them to hold their trade without discrimination. Furthermore, certain countries, notably the United Kingdom, have large demand obligations, in the form of balances of their own currencies held by foreigners. They must repay these obligations largely with goods, and the competitive position or availability of their exports may not permit them to allow their creditors a full choice as to where they may spend these balances. Thus Britain, in paying off her sterling indebtedness, has had to insist that most of the balances released be used for purchases within the sterling area or in certain other countries outside the dollar area.

Another important condition for the establishment of convertibility of any kind is the possession of adequate gold and convertible foreign exchange reserves. Total gold and dollar holdings of foreign countries in June 1950 were 16.4 billion dollars as compared with 14 billion dollars in December 1938. However, the purchasing power of these gold and dollar holdings has been cut approximately in half so that in terms of 1938 prices present foreign gold and dollar holdings amount to only about 8 billion dollars. Moreover, many of the countries whose need for reserves is greatest have suffered the largest relative decline in reserve holdings. For example, the reserves of most Western European countries are lower than before the war while those of many Latin American countries and Swtizerland have increased substantially.

While it is desirable as an ultimate goal to promote the removal of all currency and trade restrictions, the removal of discriminatory restrictions is most important. The inability to finance import surpluses from certain currency areas with proceeds of export surpluses to others inevitably leads to forced bilateral balancing of trade. The resulting trade is likely to be both low and uneconomical. For example, a European country may not be able to use a sterling surplus to purchase a commodity efficiently produced in South America but may be forced to buy the same commodity produced less efficiently in some sterling area country. Many countries whose normal export markets are largely in nondollar countries will be unable to remove their own trade and exchange controls until a system of world-wide multilateral settlements is reestablished. It is therefore highly important that there be developed a system of international payments which will make it unnecessary for countries to discriminate as between sources of imports.

Because of unsettled political and economic conditions and of the tendency for countries to employ economic controls for a variety of purposes, general convertibility of currencies as it existed before the war is likely to be delayed for some time. Nevertheless, in the meantime it should be possible to establish a system of multilateral settlements which avoids the necessity of trade and currency discrimination even though the individual residents of many countries are not free to exchange their own currencies with one another in free exchange markets. Such a payments system, although perhaps limiting the freedom of the individual trader as compared with prewar convertibility, would permit the reestablishment of a substantial degree of multilateral trade among nations by enabling each country to use its surplus with any other country for payment of a deficit with a third country. As a minimum, it would require that countries whose currencies are widely employed in international transactions, e. g., the pound sterling, would permit balances of their own currencies currently acquired by the residents or the central banks of other countries to be used for settling deficits with any currency area including the dollar area. It would also mean that countries must refrain from entering into bilateral arrangements which involve limitations on the use of one another's currencies in making payments to third countries, or which provide for discrimination in favor of one another's exports.

The development of a payments system which will permit universal multilateral settlements is likely to be a step-by-step process. The European Payments Union represents an important advance in this direction; another essential step is the restoration of sterling convertibility; both were discussed in chapter III. It is quite possible that other countries as well as the United Kingdom may be in a position to resume currency convertibility or to join a payments system involving full gold settlements, but that they may lack sufficient gold and dollar reserves to maintain confidence in their currencies and to meet unforeseeable and temporary drains. Although the International Monetary Fund is the established international agency for providing short-term funds for currency stabilization, there may be cases in which a different type of stabilization credit is needed or for which the Fund's resources are not adequate. In such circumstances, consideration might be given to other sources of stabilization credits, including the United States Exchange Stabilization Fund and the Federal Reserve System.

Currency stabilization credits should not be extended by the United States until all of the basic conditions for convertibility have been established, except for the provision of sufficient reserves. Funds expected to be used for meeting continuing deficits should not be provided in connection with a program of convertibility. Financial assistance in connection with convertibility should not be extended unless convertibility is accompanied by progress in the elimination of trade discrimination.

VI. The Administration of Foreign Economic Assistance Programs

The analysis and suggestions set forth in this Report are designed to indicate general outlines for our future foreign economic policies in the light of present circumstances and prospects. A continuing appraisal is necessary, however, and detailed studies should be made of the financial and other programs required to achieve our foreign policy objectives in specific countries and areas.

It is also necessary continuously to relate the use of resources in foreign economic programs to other needs, and to the capacity of our economy. Apart from direct military assistance, the financial burden of the foreign economic programs outlined in this Report should be substantially less than we have been spending for these purposes during the past year. The sacrifices involved for this country in undertaking such programs would be far outweighed by the enormous gains to be achieved in terms of the security and well-being of our own country, both in the short and long run.

The complexity and urgency of current foreign economic problems call for a high degree of consistency and continuity in our foreign economic programs. The pressing problems cannot be dealt with on a short-run or periodic basis. It is important that legislative action be designed to permit advance planning by the Executive Branch, that promises or commitments be made only with a reasonable assurance of adequate follow-through on our part, and that both legislative and administrative action permit advance planning by the other countries affected. It is also important that flexibility be maintained in the administration of aid.

On the other hand, it is important that commitments or promises not be made unless there is reasonable assurance of performance on the part of other countries. This is a task of great difficulty and delicacy. Yet aid cannot be effective, either economically or in generating popular support for the free world, unless it is implemented by appropriate internal policies in the countries concerned, and these policies will frequently have to relate to broad internal measures. Thus initiative and cooperation is involved on the part of recipient countries, and assurance of such cooperation requires that grants and loans be made conditional upon prior agreement regarding reasonable standards of performance, and that they be used to help achieve these standards.

It is important, from this standpoint as well as from others, to rely as far as possible on cooperation with other countries in carrying out foreign programs. Thus the appropriate international or regional organizations should be strengthened and both the geographical and the functional scope of their activities increased. Such an approach can frequently be more effective than bilateral action in specific situations, and can stimulate greater contributions and incentives on the part of other interested governments. Until international organizations are strengthened, United States instruments for operation in the foreign field must be maintained and strengthened.

In the case of development programs particularly, operation through international organizations may be essential to accomplishing the basic purposes of aid. It is frequently not possible for any one country unilaterally to give effective guidance on internal operations without creating fears or suspicions of interventionist motives, which would defeat major purposes of the program. Such programs, therefore, will frequently be most effective if operated through international organizations, staffed in part by nationals of countries in which the particular underdeveloped country has confidence. Some assistance will, of course, have to be provided bilaterally, but international organizations, and especially the United Nations and its affiliated organizations, should be used wherever practicable.

To implement foreign economic programs and to make sure that within the United States Government the requisite priorities of our interests as among areas and purposes are observed, a better organization is required to carry on overseas economic activities. United States assistance to Western Europe is likely to be necessary for a few years in support of a greatly expanded program of military production. The provision of technical assistance and loans for development, and over a shorter period a moderate amount of grant aid, will be necessary to serve United States interests in other parts of the world. Increased United States requirements for scarce materials will make necessary an expanded program to procure those materials abroad and to develop additional sources of supply. These programs must not only be coordinated with each other, but also with such commodity controls as may have to be imposed. We should also make every effort to weld the various economic activities into a program which, once under way, can be dramatized, and to back this up with appropriate political and information policies. What is needed as soon as possible, therefore, is a foreign economic programs agency or organization which can achieve the needed degree of administrative centralization.

The Hoover Commission called attention to the pressing need for a reexamination of the United States Government's methods of conducting its foreign operations. There is under way at the present time an extensive study of this problem under the direction of the Bureau of the Budget. Concerning economic operations, it appears advisable to include, in the functions of a foreign economic programs agency or organization, administration of at least the following programs: the administration of assistance other than military equipment to Western Europe; the administration of such grant programs as may be necessary in other parts of the world, including occupied areas; responsibility for foreign procurement and development to meet United States needs for raw materials; and responsibility for the operation of all foreign technical assistance activities of the United States Government. In addition, such an agency or organization should be responsible for presenting the needs of foreign programs to the agencies administering domestic and export controls.

This Report does not attempt to deal with the problem of coordination at broad policy levels, or with the relationships of various mechanisms which are now in existence or under discussion for this purpose. Operations in economic fields as outlined above will obviously have to be coordinated at the policy level with other aspects of our foreign affairs, and present efforts to improve the machinery for such coordination within the government should be followed through.

STATISTICAL APPENDIX

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TABLE 1.—*International transactions of the United States with all areas, 1946–50*

[Millions of dollars]

Type of transaction	1946	1947	1948	1949			1950, first half
				Total	First half	Second half	
					Annual rate		
Exports of goods and services:							
Goods [1]	11,672	15,977	13,427	12,337	13,806	10,868	10,060
Services	2,259	2,673	2,290	2,296	2,426	1,348	2,050
Investment income	810	1,146	1,375	1,323	1,298	2,166	1,392
Total	14,741	19,796	17,092	15,956	17,530	14,382	13,502
Imports of goods and services:							
Goods [1]	5,168	6,100	7,833	7,144	7,442	6,846	7,908
Services	1,579	1,940	2,239	2,242	2,156	2,328	2,338
Investment income	216	249	284	329	338	320	370
Total	6,963	8,289	10,356	9,715	9,936	9,494	10,616
Export surplus:							
Goods and services	7,184	10,610	5,645	5,247	6,634	3,042	1,864
Investment income	594	897	1,091	994	960	1,846	1,022
Total	7,778	11,507	6,736	6,241	7,594	4,888	2,886
Means of financing export surplus: [2]							
Liquidation of gold and dollar assets by foreign countries	1,932	4,462	730	1	728	−724	−2,208
Dollar disbursements by:							
International Monetary Fund	-------	462	203	99	98	100	−24
International Bank	-------	300	176	38	32	44	58
U. S. Government sources: [3]							
Unilateral transfers	2,288	1,947	4,161	5,304	5,878	4,730	4,272
Long- and short-term loans	2,689	3,895	907	643	798	490	246
U. S. private sources:							
Remittances	679	665	652	515	530	500	440
Long- and short-term capital	369	756	869	617	612	622	330
Total	7,957	12,487	7,748	7,217	8,672	5,762	3,114
Errors and omissions	−179	−980	−1,012	−976	−1,078	−874	−228

[1] Includes goods sold to or bought from other countries that have not been shipped from or into the United States customs area, and other adjustments.

[2] All figures for means of financing are on a net basis.

[3] Excludes subscription to the capital of the International Monetary Fund and the International Bank.

Source: U. S. Department of Commerce.

TABLE 2.—*International transactions of the United States with ERP countries, 1946–50*

[Millions of dollars]

Type of transaction	1946	1947	1948	1949			1950, first half
				Total	First half	Second half	
					Annual rate		
Exports of goods and services:							
Goods [1]	4,252	5,728	4,733	4,272	4,938	3,606	3,300
Services	1,114	1,336	989	925	1,018	832	836
Investment income	107	153	195	202	186	218	208
Total	5,473	7,217	5,917	5,399	6,142	4,656	4,344
Imports of goods and services:							
Goods [1]	767	843	1,212	1,026	1,138	914	1,028
Services	399	763	860	996	1,012	980	1,176
Investment income	146	183	196	241	250	232	288
Total	1,312	1,789	2,268	2,263	2,400	2,126	2,492
Export surplus:							
Goods and services	4,200	5,458	3,650	3,175	3,806	2,544	1,932
Investment income	−39	−30	−1	−39	−64	−14	−80
Total	4,161	5,428	3,649	3,136	3,742	2,530	1,852
Means of financing export surplus: [2]							
Liquidation of gold and dollar assets by foreign countries	577	2,448	681	149	476	−178	−1,654
Dollar disbursements by:							
International Monetary Fund		431	117				−24
International Bank		300	176	−5	−6	−4	−14
U. S. Government sources:							
Unilateral transfers	468	730	3,151	4,158	4,630	3,686	3,430
Long- and short-term loans	2,100	3,661	953	558	742	374	206
U. S. private sources:							
Remittances	314	364	351	319	330	308	266
Long- and short-term capital	177	82	121	−44	−110	22	32
Total	3,936	8,016	5,550	5,135	6,062	4,208	2,242
Transfer of funds between foreign areas (receipts +, payments −) and errors and omissions	+225	−2,588	−1,901	−1,999	−2,320	−1,678	−390

[1] Includes goods sold to or bought from other countries that have not been shipped from or into the United States customs area, and other adjustments.

[2] All figures for means of financing are on a net basis.

Source: U. S. Department of Commerce.

TABLE 3.—*International transactions of the United States with ERP dependencies, 1946–50*

[Millions of dollars]

Type of transaction	1946	1947	1948	1949 Total	1949 First half (Annual rate)	1949 Second half (Annual rate)	1950, first half [1] (Annual rate)
Exports of goods and services:							
Goods [2]	500	815	704	748	818	678	434
Services	78	83	79	83	100	66	56
Investment income	20	32	75	95	74	116	62
Total	598	930	858	926	992	860	552
Imports of goods and services:							
Goods [2]	320	520	694	661	718	604	766
Services	59	64	59	64	74	54	68
Investment income	2	3	2	2	2	2	4
Total	381	587	755	727	794	660	838
Export surplus:							
Goods and services	199	314	30	106	126	86	−344
Investment income	18	29	73	93	72	114	58
Total	217	343	103	199	198	200	−286
Means of financing export surplus: [3]							
Liquidation of gold and dollar assets by foreign countries	−9	120	−9	−14	−34	6	−88
Dollar disbursements by:							
International Monetary Fund	--------	--------	--------	--------	--------	--------	--------
International Bank	--------	--------	--------	--------	--------	--------	--------
U. S. Government sources:							
Unilateral transfers	4	−3	−1	--------	--------	--------	--------
Long- and short-term loans	70	−23	−2	1	--------	2	--------
U. S. private sources:							
Remittances	35	19	10	9	10	8	10
Long- and short-term capital	10	52	72	36	6	66	12
Total	110	165	70	32	−18	82	−66
Transfer of funds between foreign areas (receipts +, payments −) and errors and omissions	+107	+178	+33	+167	+216	+118	−220

[1] Indonesia and Indochina are excluded in 1950.

[2] Includes goods sold to or bought from other countries that have not been shipped from or into the United States customs area, and other adjustments.

[3] All figures for means of financing are on a net basis.

Source: U. S. Department of Commerce.

TABLE 4.—*International transactions of the United States with Latin American Republics, 1946–50*

[Millions of dollars]

Type of transaction	1946	1947	1948	1949 Total	1949 First half (Annual rate)	1949 Second half (Annual rate)	1950, first half (Annual rate)
Exports of goods and services:							
Goods [1]	[illegible]	3,859	3,162	2,705	2,942	2,468	2,466
Services	[illegible]	479	554	504	508	500	462
Investment income	[illegible]	477	556	401	372	430	454
Total	2,882	4,815	4,272	3,610	3,822	3,398	3,382
Imports of goods and services:							
Goods [1]	1,882	2,306	2,644	2,503	2,572	2,434	2,704
Services	366	416	443	439	444	434	500
Investment income	10	11	12	11	10	12	8
Total	2,258	2,733	3,099	2,953	3,026	2,880	3,212
Export surplus:							
Goods and services	300	1,616	629	267	434	100	−276
Investment income	324	466	544	390	362	418	446
Total	624	2,082	1,173	657	796	518	170
Means of financing export surplus: [2]							
Liquidation of gold and dollar assets by foreign countries	43	619	76	−347	−164	−530	52
Dollar disbursements by:							
International Monetary Fund	-------	31	2	35	28	42	-------
International Bank	-------	-------	-------	31	38	24	40
U. S. Government sources:							
Unilateral transfers	19	47	17	31	30	32	28
Long- and short-term loans	45	176	−53	39	38	40	-------
U. S. private sources:							
Remittances	42	34	24	16	16	16	10
Long- and short-term capital	−9	612	330	365	392	338	-------
Total	140	1,519	396	170	378	−38	130
Transfer of funds between foreign areas (receipts +, payments −) and errors and omissions	+484	+563	+777	+487	+418	+556	+40

[1] Includes goods sold to or bought from other countries that have not been shipped from or into the United States customs area, and other adjustments.
[2] All figures for means of financing are on a net basis.

Source: U. S. Department of Commerce.

TABLE 5.—*International transactions of the United States with Canada, 1946–50*

[Millions of dollars]

Type of transaction	1946	1947	1948	1949 Total	1949 First half (Annual rate)	1949 Second half (Annual rate)	1950 first half (Annual rate)
Exports of goods and services:							
Goods [1]	1,469	2,116	1,938	1,930	2,078	1,782	1,852
Services	237	276	237	280	258	302	264
Investment income	248	302	319	362	396	328	366
Total	1,954	2,694	2,494	2,572	2,732	2,412	2,482
Imports of goods and services:							
Goods [1]	900	1,131	1,612	1,567	1,542	1,592	1,762
Services	312	360	387	404	294	514	296
Investment income	44	32	54	52	56	48	52
Total	1,256	1,523	2,053	2,023	1,892	2,154	2,110
Export surplus:							
Goods and services	494	901	176	239	500	−22	58
Investment income	204	270	265	310	340	280	314
Total	698	1,171	441	549	840	258	372
Means of financing export surplus: [2]							
Liquidation of gold and dollar assets by foreign countries	635	821	−466	−33	98	−164	−218
Dollar disbursements by:							
International Monetary Fund							
International Bank							
U. S. Government sources:							
Unilateral transfers	3	34	5	10	12	8	12
Long- and short-term loans	−1	−12		1		2	
U. S. private sources:							
Remittances	8	−8	4	10	8	12	−2
Long- and short-term capital	30	−170	197	81	102	60	122
Total	675	665	−260	69	220	−82	−86
Transfer of funds between foreign areas (receipts +, payments −) and errors and omissions	+23	+506	+701	+480	+620	+340	+458

[1] Includes goods sold to or bought from other countries that have not been shipped from or into the United States customs area, and other adjustments.

[2] All figures for means of financing are on a net basis.

Source: U. S. Department of Commerce.

TABLE 6.—*International transactions of the United States with Asia, Africa, and Oceania, 1946–50* [1]

[Millions of dollars]

Type of transaction	1946	1947	1948	1949 Total	1949 First half (Annual rate)	1949 Second half (Annual rate)	1950, first half (Annual rate)
Exports of goods and services:							
Goods [2]	2,279	2,927	2,646	2,505	2,838	2,172	1,860
Services	281	395	345	393	440	346	314
Investment income	97	171	213	245	254	236	288
Total	2,657	3,493	3,204	3,143	3,532	2,754	2,462
Imports of goods and services:							
Goods [2]	1,002	1,083	1,456	1,210	1,316	1,104	1,456
Services	400	276	430	280	298	262	266
Investment income	14	15	13	15	14	16	10
Total	1,416	1,374	1,899	1,505	1,628	1,382	1,732
Export surplus:							
Goods and services	1,158	1,963	1,105	1,408	1,664	1,152	452
Investment income	83	156	200	230	240	220	278
Total	1,241	2,119	1,305	1,638	1,904	1,372	730
Means of financing export surplus: [3]							
Liquidation of gold and dollar assets by foreign countries	642	451	443	316	384	248	−218
Dollar disbursements by:							
International Monetary Fund			78	55	70	40	
International Bank				12		24	24
U. S. Government sources:							
Unilateral transfers	267	561	880	995	1,086	904	708
Long- and short-term loans	225	48	−18	22	−2	46	−18
U. S. private sources:							
Remittances	149	117	180	93	108	78	104
Long- and short-term capital	166	141	148	179	244	114	164
Total	1,449	1,318	1,711	1,672	1,890	1,454	764
Transfer of funds between foreign areas (receipts (+), payments (−)) and errors and omissions	−208	+801	−406	−34	+14	−82	−34

[1] Excluding dependencies of ERP countries. Indonesia and Indochina are included in 1950 only. Includes all foreign countries not shown in tables 2 to 5, except non-ERP countries in Europe; also excludes international institutions.

[2] Includes goods sold to or bought from other countries that have not been shipped from or into the United States customs area, and other adjustments.

[3] All figures for means of financing are on a net basis.

Source: U. S. Department of Commerce.

TABLE 7.—*United States Government grants, other unilateral transfers, and loans to foreign countries, 1946–50*

[Millions of dollars]

Type of aid	1946	1947	1948	1949			1950, first half
				Total	First half	Second half	
					Annual rate		
A. Unilateral payments:							
Lend-lease	178						
UNRRA and post-UNRRA	1,529	781	84	2	4		
Civilian supplies distributed by the armed forces	539	1,009	1,448	1,059	1,080	1,038	500
Transfers to Philippines	61	91	130	203	194	212	134
Chinese aid	15		168	109	184	[illegible]	26
Korean aid				30	28		82
Greek-Turkish aid		74	348	171	190		96
International Refugee Organization		15	89	71	70	[illegible]	70
Interim aid		12	546				
European Recovery Program			1,398	3,732	4,050	3,414	[1] 3,240
Mutual Defense Assistance Program							120
Other	132	288	133	182	170	194	176
Total unilateral payments	2,454	2,250	4,344	5,559	5,970	5,148	4,444
Less: Unilateral receipts	166	303	183	255	92	418	172
Equals: Net unilateral payments	2,288	1,947	4,161	5,304	5,878	4,730	4,272
B. Long-term loans and investments:							
Lend-lease credits	547		2	4	4	4	2
Surplus property including ship sales	787	273	192	24	48		
Export-Import Bank loans	945	797	454	163	184	142	216
United Kingdom loan	600	2,850	300				
Subscriptions to:							
International Bank	318	317					
International Monetary Fund	5	2,745					
European Recovery Program			476	425	758	92	168
Other	146	161	18	59	46	72	88
Total long-term loans and investments	3,348	7,143	1,442	675	1,040	310	474
Less: Repayments	86	294	443	205	238	172	288
Equals: Net long-term loans and investments, including to International Bank and International Monetary Fund	3,262	6,849	999	470	802	138	186
Less: Subscriptions to International Bank and International Monetary Fund	323	3,062					
Equals: Net long-term loans and investments, excluding to International Bank and International Monetary Fund	2,939	3,787	999	470	802	138	186
C. Outflow of short-term capital (net)	−250	108	−92	173	−6	352	60
Total net unilateral payments and total capital movement, excluding to International Bank and International Monetary Fund (A+B+C)	4,977	5,842	5,068	5,947	6,674	5,220	4,548

[1] Includes aid to Indonesia at an annual rate of 74 million dollars.

Source: U. S. Department of Commerce.

TABLE 8.—*Europe's balance of payments on goods and services with the United States and with other non-European countries, 1938 and 1947–49*

[Billions of dollars]

Type of transaction	1938			1947			1948			1949 [1]		
	Total	United States	Other non-European countries	Total	United States	Other non-European countries	Total	United States	Other non-European countries	Total	United States	Other non-European countries
Trade account:												
Imports (f. o. b.)	5.5	1.3	4.2	13.7	6.2	7.5	14.3	4.8	9.5	13.6	4.4	9.2
Exports (f. o. b.)	3.7	.6	3.1	6.4	1.0	5.4	8.8	1.2	7.6	9.6	1.1	8.5
Balance on trade account	−1.8	−.7	−1.1	−7.3	−5.2	−2.1	−5.5	−3.6	−1.9	−4.0	−3.3	−.7
Service account:												
Income from investments (net)	+1.2	+.1	+1.1	+.4	......	+.4	+.5	......	+.5	+.5	......	+.5
Other invisibles (net)	+.6	+.2	+.4	−.5	−.6	+.1	−.2	......	−.2	+.6	+.1	+.5
Balance on service account	+1.8	+.3	+1.5	−.1	−.6	+.5	+.3	......	+.3	+1.1	+.1	+1.0
Balance on goods and services	......	−.4	+.4	−7.4	−5.8	−1.6	−5.2	−3.6	−1.6	−2.9	−3.2	+.3

[1] Preliminary.

Sources: 1938 data from International Monetary Fund, *Balance of Payments Yearbook 1938, 1946, and 1947*, p. 48; other data from *Balance of Payments Yearbook, 1948 and Preliminary 1949*, p. 34, with revisions of United States figures as shown in *Survey of Current Business*, June 1950.

TABLE 9.—*Industrial and agricultural production indexes of Western Europe, 1937–38 and 1946–50*

Period [1]	Industrial production, 1938=100		Gross agricultural production, prewar average=100 [3]
	ERP countries [2]	ERP countries excluding Germany (Federal Republic)	
1937	102	106	[4]
1938	100	100	[4]
1946	77	94	[4]
1947	87	106	82
1948	101	119	93
1949	115	129	97
1949—First quarter	114	129	[4]
Second quarter	115	130	[4]
Third quarter	110	122	[4]
Fourth quarter	121	135	[4]
1950—January	121	135	[4]
February	126	140	[4]
March	125	139	[4]
April	121	134	[4]
May	123	137	[4]
June	128	141	[4]
July	[5] 118	[5] 127	[4]

[1] Annual data for industrial production are on a calendar-year basis and for agricultural production on a crop-year basis beginning with the year noted.

[2] All ERP countries combined, excluding Iceland, Portugal, and Switzerland for which no indexes are available.

[3] In general covers years 1934 to 1938.

[4] Not available.

[5] Preliminary.

Sources: Economic Cooperation Administration, *Recovery Guides, Participating Countries*, No. 16, October 1950, p. 10 and p. 142.

TABLE 10.—*Indexes of volume of Western European commodity trade, 1937–38 and 1947–50* [1]

[Measured at 1938 prices, 1938=100]

Period	Exports	Imports
1937	112	107
1938	100	100
1947	75	95
1948	92	94
1949	109	95
1949—First quarter	108	93
Second quarter	106	99
Third quarter	104	93
Fourth quarter	115	96
1950—January	117	98
February	109	87
March	121	98
April	107	95
May	120	98
June	[2] 128	[2] 104

[1] Trade with rest of the world of all ERP participating countries, excluding Greece. Excludes United Kingdom reexports. Dependent overseas territories included in "rest of the world."

[2] Preliminary.

Source: Economic Cooperation Administration, *Recovery Guides, Participating Countries,* August 1950, and preliminary data for September 1950 edition.

TABLE 11.—*Gold and short-term dollar assets of ERP participating countries, 1938 and 1945–50*

[Millions of dollars]

End of period	Total	United Kingdom		Switzerland [3]	Belgium, Luxemburg [5]	France [3]	Italy [6]	Other
		Total [1]	Gold and official dollars [2]					
1938	10,817	3,855	3,855	920	828	2,948	213	2,033
1945	10,292	2,717	2,476	1,640	1,011	2,122	87	2,715
1946	9,672	2,957	2,696	1,797	978	1,234	289	2,417
1947	7,543	2,404	2,079	1,791	797	775	208	1,568
1948	7,630	2,221	1,836	1,886	838	794	428	1,463
1949—September	7,415	1,794	1,425	1,994	935	734	542	1,416
December	7,769	2,028	1,688	2,016	912	740	560	1,513
1950—March	(7)	(7)	1,984	2,103	902	725	528	(7)
June	8,897	2,781	2,422	2,159	871	787	549	1,750
September	(7)	(7)	2,756	(7)	(7)	(7)	(7)	(7)

[1] Canadian dollars are excluded. Participating dependent overseas territories are included.

[2] Reported by the British Government: excludes private dollar holdings but includes some Canadian dollars. Dependent overseas territories are excluded.

[3] Excludes holdings of the Bank for International Settlements and the World Health Organization.

[4] Includes Belgian Congo except in 1938.

[5] Includes participating dependent overseas territories except in 1938. Excludes holdings of exchange stabilization funds.

[6] Starting with December 1947 includes Trieste.

[7] Not available.

Sources: Economic Cooperation Administration, *Recovery Guides, Participating Countries*, No. 16, October 1950, table 36, p. 160. Table developed from basic data from U. S. Treasury Department and the Board of Governors of the Federal Reserve System.

TABLE 12.—*Unit values of exports and imports and terms of commodity trade of ERP countries with rest of the world, 1938 and 1948–50* [1]

Period	Implicit index of unit value, 1938=100 [2]		Ratio of index of unit value of imports to index of unit value of exports
	Exports	Imports	
1938	100	100	100
1948	220	238	108
1949	205	224	109
1948—First quarter	215	234	109
Second quarter	217	244	113
Third quarter	220	233	106
Fourth quarter	222	237	107
1949—First quarter	223	240	108
Second quarter	221	240	109
Third quarter	215	228	106
Fourth quarter	166	186	112
1950—First quarter	167	195	117
Second quarter	168	197	117

[1] Dependent overseas territories are included in rest of the world.

[2] Rough measures of price movements were obtained by dividing the values of trade in current dollars by the values of trade in terms of 1938 dollars. Although the resulting indexes of unit values are not true price indexes and are subject to limitations and inaccuracies not usually found in directly computed price indexes, they represent the best available measures of price movements in trade.

Source: Based on Economic Cooperation Administration data.

TABLE 13.—*United Kingdom balance of payments on current account, 1946–50*

[Millions of pounds sterling]

Area	1946	1947	1948	1949			1950, first half[1]
				Total	First half	Second half	
With all areas:							
Imports (f. o. b.)	1,061	1,560	1,790	1,965	958	1,007	1,150
Exports and re-exports (f. o. b.)	905	1,135	1,583	1,818	915	903	1,042
Trade balance	−176	−425	−207	−147	−43	−104	−108
Balance of invisible items	−172	−133	+127	+109	+59	+50	+160
Current account balance	−348	−558	−80	−38	+16	−54	+52
With dollar area:							
Imports (f. o. b.)	389	565	402	440	206	234	202
Exports and re-exports (f. o. b.)	98	127	191	189	95	94	131
Trade balance	−291	−438	−211	−251	−111	−140	−71
Balance of invisible items	−41	−136	−62	−51	−31	−20	+19
Current account balance	−332	−574	−273	−302	−142	−160	−52
With other areas:							
Imports (f. o. b.)	692	995	1,388	1,525	752	773	948
Exports and re-exports (f. o. b.)	807	1,008	1,392	1,629	820	809	911
Trade balance	+115	+13	+4	+104	+68	+36	−37
Balance of invisible items	−131	+3	+189	+160	+90	+70	+141
Current account balance	−16	+16	+193	+264	+158	+106	+104

[1] Preliminary.

Source: *United Kingdom Balance of Payments, 1946 to 1950.* Cmd. 8065. October 1950.

TABLE 14.—*Gold and dollar account of sterling area, 1946–50*

[Millions of dollars]

Type of transaction	1946	1947	1948	1949 Total	1949 First half	1949 Second half	1950, first half [1]
United Kingdom account:							
Current account with the dollar area:							
Imports (f. o. b.)	1,565	2,279	1,623	1,596	824	772	565
Invisible debits	407	652	354	328	180	148	114
Total debits	1,972	2,931	1,977	1,924	1,004	920	679
Exports and reexports (f. o. b.)	396	512	771	693	380	313	367
Invisible credits	240	103	101	122	53	69	169
Total credits	636	615	872	815	433	382	536
Balance of current transactions (debit −)	−1,336	−2,316	−1,105	−1,109	−571	−538	−143
Capital transactions entering gold and dollar deficit:							
Subscriptions to International Monetary Fund and International Bank	−30	−206	−26				
Changes in sterling liabilities (increase +)	−4	−57	+10	+31	−19	+50	
Payments into ERP counterpart fund [2]			−18	−39	−15	−24	−17
Other	+94	−67	−147	+29	−24	+53	+82
Total capital transactions	+60	−330	−181	+21	−58	+79	+52
Total United Kingdom deficit (−) in gold and dollars	−1,276	−2,646	−1,286	−1,088	−629	−459	−108
Rest-of-sterling-area account:							
Current account with dollar area	−262	−1,100	−334	−404	−261	−143	+182
Subscriptions to International Monetary Fund and International Bank		−28					
Gold sales to United Kingdom	+334	+342	+222	+234	+84	+150	+149
Total rest-of-sterling-area surplus (+) or deficit (−)	+72	−786	−112	−170	−177	+7	+331
Other sterling area account:							
Net gold and dollar receipts from (+) or payments to (−) other countries:							
Other Western Hemisphere	−84	−298	−36	−7	−4	−3	+8
OEEC countries	+381	−339	−194	−161	−95	−66	+13
Other	−1	−62	−82	−106	−57	−49	−24
Total other sterling-area surplus (+) or deficit (−)	+296	−399	−312	−274	−156	−118	−3
Total net gold and dollar surplus (+) or deficit (−)	−908	−4,131	−1,710	−1,531	−962	−570	+220

[1] Preliminary.

[2] Payments (in sterling) to U. S. Government amounting to 5 percent of counterpart funds.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: *United Kingdom Balance of Payments, 1946–50.* Cmd 8065, October 1950.

TABLE 15.—*Japan's international transactions, September 1945–June 1947 and fiscal years 1948–50*

[Millions of United States dollars]

Type of transaction	September 1945–June 1947	Fiscal year 1948 [1]	Fiscal year 1949 [1]	Fiscal year 1950 [1]
A. Current transactions:				
Merchandise trade:				
Import arrivals (c. i. f.)	495.4	684.6	839.5	875.9
Exports, including adjustments (f. o. b.) [2]	161.1	175.1	443.9	571.4
Merchandise balance	−334.3	−509.5	−395.6	−304.5
Invisibles:				
Interest paid	2.8	1.3	1.5	1.9
Other invisibles, net	1.8	1.5	45.3	86.8
Balance on invisibles	−1.0	+.2	+43.8	+84.9
Current account balance	−335.3	−509.3	−351.8	−219.6
B. Capital transactions:				
United States loans received [3]	124.3	55.8	86.5	39.9
United States loans repaid [3]	33.4	99.5	54.9	118.7
Net borrowings (+) or repayments (−)	+90.9	−43.7	+31.6	−78.8
C. Special transactions and adjustments:				
United States aid	324.2	518.6	506.1	453.9
Special adjustment			[4] 17.5	[5] 44.3
Net special transactions and adjustments	+324.2	+518.6	+488.6	+409.6
Net increase (+) or decrease (−) in short-term assets (A+B+C)	+79.8	−34.4	+168.4	+111.2

[1] Fiscal year beginning July 1.

[2] Data include adjustments for exports consigned to the U. S. Commercial Company (USCC); only actual sales by the USCC are included in the data.

[3] All loans received, totaling 306.5 million dollars, were repaid by June 30, 1950.

[4] This figure represents adjustment for restitution settlement arising out of looted commodities which had been recorded as merchandise exports in 1945 and 1946.

[5] This figure represents adjustment of 3.6 million dollars of restitution settlement of looted commodities (see footnote 4) and 40.7 million dollars adjustment for 2 items: (1) A write-off of 20.2 million dollars of uncollectible receivables in the China and Korea foreign trade accounts; and (2) a loss of 20.5 million dollars resulting from the devaluation of sterling.

Source: SCAP Economic and Scientific Section, Programs and Statistics Division, *International Transactions of Japan by Trading Area and by Period September 1945–June 1950*, Aug. 8, 1950.

TABLE 18.—*Distribution of world population, 1949*

Area	Total: Number (millions)	Total: Percent of world population	Soviet-dominated: Number (millions)	Soviet-dominated: Percent of world population	Free world: Number (millions)	Free world: Percent of world population
"Underdeveloped" areas:[1]						
Latin America	157	6.6			157	6.6
Africa	198	8.3			198	8.3
Asia	1,253	52.7	452	19.0	801	33.7
Total	1,608	67.7	452	19.0	1,156	48.7
"Developed" areas:[1]						
United States	149	6.3			149	6.3
Canada	14	.6			14	.6
Europe	593	25.0	292	12.3	301	12.7
Oceania	12	.5			12	.5
Total	768	32.4	292	12.3	476	20.0
Total world population	2,376	100.0	744	31.3	1,632	68.7

[1] The terms "underdeveloped" and "developed" as used in this table are not based on an application of these terms to individual countries, but only to broad areas in conformity with the discussion in the text.

NOTE—Detail will not necessarily add to totals because of rounding.

Source: Compiled from data in *Population and Vital Statistics Reports*, United Nations, Statistical Papers, Series A, Vol. II, No. 2, June 1950.

TABLE [illegible].—*Indexes of population and cereal production, trade, and per capita supply in South and Southeast Asia, 1949–50*

[1937–38=100][1]

Country	Population	Cereal: Production	Cereal: Net imports	Cereal: Net exports	Cereal: Per capita supply[2]
Afghanistan	100	[3] 100	(4)	(4)	(4)
Burma	114	56		43	103
Ceylon	129	103	112		86
India	116	112	[5] 134		83
Pakistan			(6)	(6)	
Indochina	115	80		5	106
Indonesia	109	103	86		(4)
Malaya	107	137	94		87
Philippines	125	118	311		86
Thailand	124	118		87	105
Average of above countries	115	104	106	(4)	86

[1] Base corresponds to the 1937–38 crop year for cereal production.

[2] 1947–48 or 1948–49 data.

[3] Data not available for 1949–50. However, it is believed that 1949–50 production for these crops has not changed significantly from 1937–38 estimates which are rough.

[4] Not available.

[5] Rough approximation

[6] Pakistan was a net exporter in 1937–38; reliable data on its 1949–50 net trade position not available.

Source: U. S. Department of State.

TABLE 18.—*Movements of United States private long-term capital, 1946–49*

[Millions of dollars]

Type of capital movement	1946	1947	1948	1949
Direct investments:				
Outflow	801	941	1,334	1,417
Inflow	618	217	689	583
Net outflow (+)	+183	+724	+645	+834
Net outflow through International Bank [1]		243	7	20
Other long-term capital:				
Outflow	335	244	285	165
Inflow	459	401	176	219
Net outflow (+) or inflow (−)	−124	−157	+109	−54
Total net outflow (+)	+59	+810	+761	+800

[1] Net purchases of obligations issued or guaranteed by the International Bank for Reconstruction and Development.

Source: U. S. Department of Commerce, *Survey of Current Business*, June 1950, p. 18.

TABLE 19.—*Net outflow of United States private direct-investment capital, by area, 1946–49*

[Millions of dollars]

Year and industry	Total	Canada	Latin American republics	ERP countries	ERP dependencies	Other Europe	All other countries
1946: Total	182.4	37.9	58.5	18.0	6.1	0.8	61.1
Petroleum industry	170.0	12.0	103.0	7.0	4.0	(1)	44.0
Other industries	12.4	25.9	−44.5	11.0	2.1	.8	17.1
1947: Total	723.5	13.0	441.7	47.4	53.0	1.1	167.3
Petroleum industry	487.0	37.0	257.0	20.0	50.0	1.0	122.0
Other industries	236.5	−24.0	184.7	27.4	3.0	.1	45.3
1948: Total	645.1	37.8	321.0	48.2	68.5	5.2	164.4
Petroleum industry	486.0	44.0	205.0	38.0	61.0	2.0	136.0
Other industries	159.1	−6.2	116.0	10.2	7.5	3.2	28.4
1949: Total	834.4	103.2	480.4	33.8	38.3	13.3	165.4
Petroleum industry	677.0	54.0	397.0	10.0	34.0	13.0	169.0
Other industries	157.4	49.2	83.4	23.8	4.3	.3	−3.6

[1] Less than 50 thousand dollars.

NOTE.—Breakdown between petroleum and other industries is subject to revision. Detail will not necessarily add to totals because of rounding.

Source: U. S. Department of Commerce.

TABLE 20.—*Disbursements and repayments of International Bank loans, by country, fiscal years 1948–50*

[Millions of dollars]

Area and country	Fiscal year 1948			Fiscal year 1949			Fiscal year 1950		
	Disbursements	Repayments	Net disbursements	Disbursements	Repayments	Net disbursements	Disbursements	Repayments	Net disbursements
Countries in "developed" areas: [1]									
France	158		158						
Netherlands	195		195	12	[2] 12		1	(2)	(4)
Denmark	16		16	24		24			
Luxembourg	9		9	1		1	2	(4)	2
Belgium				(3)	[3] 16	[3] −16	10		10
Finland							3	(4)	3
Yugoslavia							2	(4)	2
Total	378		378	37	28	9	18	1	17
Countries in "underdeveloped" areas: [1]									
Mexico				3		3	10		10
Chile				1		1	4		4
Brazil				15		15	22		22
Colombia							3		3
India							31		31
Total				19		19	70		70
Total, all areas	378		378	56	28	28	88	1	87

[1] The terms "underdeveloped" and "developed" as used in this table are not based on an application of these terms to individual countries but only to broad areas in conformity with the discussion in the text.

[2] Notes guaranteed by the Netherlands Government were delivered to the International Bank for Reconstruction and Development during fiscal year 1948–49, as collateral for 12 million dollars Dutch shipping loans. These notes in turn were sold by the I. B. R. D. under its guaranty, to private United States institutional investors. Repayments of 2.4 million dollars have since been made to such United States investors by the Dutch shipping companies, comprising 600 thousand dollars in fiscal year 1949 and 1.2 million dollars in fiscal year 1950.

[3] A loan for 16 million dollars was made in March 1949 but disbursements did not start until fiscal year 1950. The repayment shown was a resale to United States investors of Belgium bonds received as security for the loan.

[4] Less than 500 thousand dollars.

Source: International Bank for Reconstruction and Development.

TABLE 21.—*Disbursements and repayments of Export-Import Bank of Washington, by country, fiscal years 1948–50*

[Millions of dollars]

Area and country	Fiscal year 1948			Fiscal year 1949			Fiscal year 1950		
	Disbursements	Repayments	Net disbursements	Disbursements	Repayments	Net disbursements	Disbursements	Repayments	Net disbursements
Countries in "developed" areas:[1]									
Austria	1.6		1.6	9.7	0.1	9.6	1.8	1.4	0.4
Belgium	32.0	0.9	31.1		12.6	−12.6		7.4	−7.4
Canada	140.0		140.0		140.0	−140.0	1.6		1.6
Czechoslovakia	.2	.1	.1		21.7	−21.7		.2	−.2
Denmark	5.0		5.0						
Finland	19.0	14.9	4.1	13.7	2.3	11.4	10.4	8.7	1.7
France	202.0	18.3	183.7		18.3	−18.3		18.3	−18.3
Germany	4.6	2.0	2.6		2.6	−2.6			
Greece	9.8		9.8	[2]−.1		[2]−.1			
Italy	30.5	17.8	12.7	36.2	2.4	33.8	37.9	11.8	26.1
Japan				25.9	3.4	22.5	14.2	36.8	−22.6
Netherlands	18.0	11.5	6.5		2.6	−2.6		3.3	−3.3
Norway	10.0		10.0	30.2	1.6	28.6		2.8	−2.8
Poland	28.2		28.2	4.0		4.0	.4		.4
Sweden				2.2	.3	1.9		.5	−.5
Turkey	8.3	.6	7.7	13.6	2.2	11.4	4.6	4.0	.6
Yugoslavia							11.7		11.7
Total	509.2	66.1	443.1	135.4	210.1	−74.7	82.6	95.2	−12.6
Countries in "underdeveloped" areas:[1]									
Bolivia	6.0	(3)	6.0	3.2	(3)	3.2	1.0	.2	.8
Brazil	17.6	7.5	10.1	12.9	6.8	6.1	8.9	7.1	1.8
Chile	10.3	4.6	5.7	30.0	7.8	22.2	37.3	6.9	30.4
Colombia	3.1	2.5	.6	4.1	3.3	.8	5.3	3.6	1.7
Ecuador	1.8	.4	1.4	2.4	.7	1.7	2.3	.6	1.7
Mexico	24.5	9.8	14.7	16.9	12.5	4.4	19.4	14.8	4.6
Panama				.2		.2	1.3		1.3
Uruguay	1.9	.2	1.7	.5	.2	.3	.3	.2	.1
Venezuela	.5	.2	.3	1.2	.3	.9	.6	.2	.4
China	19.3	24.9	−5.6	3.0	32.9	−29.9	1.0	1.3	−.3
Israel							32.1		32.1
Saudi Arabia	3.0		3.0		1.0	−1.0		1.0	−1.0
Egypt	.5		.5	4.2		4.2	2.2		2.2
Liberia							1.5		1.5
Other[4]	.9	3.9	−3.0	.4	3.5	−3.1	.5	3.6	−3.1
Total	89.4	54.0	35.4	79.0	69.0	10.0	113.7	39.5	74.2
Total, all areas	598.6	120.1	478.5	214.4	279.1	64.7	196.3	134.7	61.6

[1] The terms "underdeveloped" and "developed" as used in this table are not based on an application of these terms to individual countries, but only to broad areas in conformity with the discussion in the text.

[2] Represents the refund of amounts disbursed in prior years.

[3] Less than 50 thousand dollars.

[4] Includes Argentina, Costa Rica, Cuba, Dominican Republic, Haiti, Honduras, Nicaragua, Paraguay, Peru, Salvador, Philippine Islands, Ethiopia, and Portuguese West Africa.

Source: Export-Import Bank of Washington.

TABLE 22.—*Gross national product and merchandise imports, 1889–1950*

Period	Gross national product	Recorded merchandise imports	Recorded merchandise imports as percent of gross national product
	(Billions of dollars)		
1889–98	12.7	0.8	6.3
1899–1908	21.6	1.0	4.6
1909–18	40.1	2.0	5.0
1919	82.9	3.9	4.7
1920	89.3	5.3	5.9
1921	69.9	2.5	3.6
1922	73.6	3.1	4.2
1923	86.9	3.8	4.4
1924	85.8	3.6	4.2
1925	92.1	4.2	4.6
1926	96.5	4.4	4.6
1927	95.5	4.2	4.4
1928	97.1	4.1	4.2
1929	103.8	4.4	4.2
1930	90.9	3.1	3.4
1931	75.9	2.1	2.8
1932	58.3	1.3	2.2
1933	55.8	1.4	2.5
1934	64.9	1.7	2.6
1935	72.2	2.0	2.8
1936	82.5	2.4	2.9
1937	90.2	3.1	3.4
1938	84.7	2.0	2.4
1939	91.3	2.3	2.5
1940	101.4	2.6	2.6
1941	126.4	3.3	2.6
1942	161.6	2.8	1.7
1943	194.3	3.4	1.7
1944	213.7	3.9	1.8
1945	215.2	4.2	2.0
1946	211.1	4.9	2.3
1947	233.3	5.8	2.5
1948	259.1	7.1	2.7
1949	255.6	6.6	2.6
1950—first half	[1] 266.2	[2] 7.6	2.9

[1] Seasonally adjusted annual rate.

[2] Annual rate.

Sources: Data for gross national product, 1889–1918, from U. S. Department of Commerce, *Historical Statistics of the United States, 1789–1945*, p. 15; 1919–28 based on estimates in *National Product since 1869* by Simon Kuznets and others, adjusted to Department of Commerce concept; data for imports from U. S. Department of Commerce.

TABLE 23.—*Value of 1947 United States imports affected by tariff reductions under trade agreements in effect on January 1, 1949*

Type of concession	Imports for consumption, 1947	
	Value (Millions of dollars)	Percent of total dutiable imports
Total dutiable imports	2,212	100.0
Duty not reduced	257	11.6
Duty reduced: total	1,955	88.4
0 to 25 percent	154	7.0
26 to 45 percent	249	11.2
46 to 65 percent	1,333	60.3
66 to 75 percent	219	9.9

Source: U. S. Tariff Commission, *Effect of Trade Agreement Concessions on United States Tariff Levels Based on Imports in 1947*, May 1947, tables 1 and 7.

Table 24.—*United States ocean shipping balance of payments, 1938 and 1947–50* [1]

[Millions of dollars]

Year	Total	ERP countries	ERP dependencies	Other Europe	Canada	Latin America	All other countries	International institutions
1938:								
Receipts	[2] 255.0	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Payments	[2] 272.0	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Net	[2] −17.0	(3)	(3)	(3)	(3)	(3)	(3)	(3)
1947:								
Receipts	1,609.4	962.1	59.0	41.7	22.4	226.9	297.3	----------
Payments	594.9	332.6	27.1	12.4	18.9	150.0	53.9	----------
Net	1,014.5	629.5	31.9	29.3	3.5	76.9	243.4	----------
1948:								
Receipts	1,205.0	582.8	54.8	16.1	10.9	300.3	230.8	9.3
Payments	537.2	[illegible]	20.2	9.9	13.6	179.0	52.6	----------
Net	667.8	320.9	34.6	6.2	−2.7	121.3	178.2	9.3
1949:								
Receipts	1,086.9	528.9	57.7	7.7	15.1	204.8	246.2	26.5
Payments	569.0	329.4	16.1	9.2	18.5	162.3	33.5	----------
Net	517.9	199.5	41.6	−1.5	−3.4	42.5	212.7	26.5
1950, first half: [4]								
Receipts	800.4	388.6	32.0	6.2	14.0	177.0	153.8	28.8
Payments	680.6	414.2	9.6	9.6	21.4	192.2	33.6	----------
Net	119.8	−25.6	22.4	−3.4	−7.4	−15.2	120.2	28.8

[1] Ocean shipping in this table includes ocean freight, ocean passenger fares, ocean port expenditures and charter hire. Years 1947 to 1949 subject to revision, year 1950 preliminary.

[2] Includes Great Lakes shipping.

[3] Not available.

[4] Annual rate.

Note.—Detail will not necessarily add to totals because of rounding.

Source: U. S. Department of Commerce.

TABLE 25.—*United States merchandise export surplus, by area, 1936–38 quarterly average and 1947–50*

Period	Total merchandise export surplus	Canada [1]	Other Western Hemisphere	ERP countries [2]	Other Europe	Asia [2]	Australia and Oceania	Africa
	Millions of dollars							
Quarterly average:								
1936–38	120	27	−7	130	1	−61	13	15
1947	2,396	246	449	1,150	73	313	41	123
1948	1,382	88	214	802		183	−3	98
1949	1,354	102	113	807	6	237	17	71
1949—First quarter	1,548	94	174	910	8	283	20	60
Second quarter	1,773	188	159	999	13	290	11	112
Third quarter	1,215	125	108	668	2	217	25	70
Fourth quarter	882	2	10	653	1	160	13	41
1950—First quarter	499	−6	−83	550	−9	99	−12	−39
Second quarter	583	53	23	521	−11	17	−14	−7
Third quarter	19	(3)	(3)	(3)	(3)	(3)	(3)	(3)
	Percentage of total							
Quarterly average:								
1936–38	100	22.5	−5.8	108.3	0.8	−50.8	10.8	12.5
1947	100	10.3	18.7	48.0	3.0	13.1	1.7	5.1
1948	100	6.4	15.5	58.0		13.2	−.2	7.1
1949	100	7.5	8.3	59.6	.4	17.5	1.3	5.2
1949—First quarter	100	6.1	11.2	58.8	.5	18.3	1.3	3.9
Second quarter	100	10.6	9.0	56.3	.7	16.4	.6	6.3
Third quarter	100	10.3	8.9	55.0	.2	17.9	2.1	5.8
Fourth quarter	100	.2	1.1	74.0	.1	18.1	1.5	4.6
1950—First quarter	100	−1.2	−16.6	110.2	−1.8	19.8	−2.4	−7.8
Second quarter	100	9.1	3.9	89.4	−1.9	2.9	−2.4	−1.2

[1] Includes Newfoundland and Labrador.

[2] Turkey is included with ERP countries and excluded from Asia. Exports to and imports from Germany in the postwar period relate almost wholly to trade with the three western zones.

[3] Not available.

NOTE.—Detail will not necessarily add to totals because of rounding.

Beginning in July 1950 data by areas exclude "special category" exports which are included in total exports.

Source: Based on U. S. Department of Commerce data in tables 26 and 27.

TABLE 26.—*United States merchandise exports, including reexports, by area, 1936–38 quarterly average and 1947–50*

Period	Total exports including reexports	Canada [1]	Other Western Hemisphere	ERP Countries [2]	Other Europe	Asia [2]	Australia and Oceania	Africa
	Millions of dollars							
Quarterly average:								
1936–38	742	115	136	282	31	122	23	32
1947	3,835	528	1,017	1,324	118	562	80	205
1948	3,163	486	841	1,046	49	507	38	196
1949	3,010	490	724	1,018	41	533	49	155
1949—First quarter	3,337	472	836	1,160	42	611	54	163
Second quarter	3,374	571	739	1,189	46	592	50	186
Third quarter	2,692	473	670	843	35	482	47	142
Fourth quarter	2,637	444	651	881	39	448	44	130
1950—First quarter	2,387	398	643	790	38	401	36	84
Second quarter	2,510	531	666	764	35	380	38	96
Third quarter	814	(3)	(3)	(3)	(3)	(3)	(3)	(3)
	Percentage of total							
Quarterly average:								
1936–38	100	15.5	18.3	38.0	4.2	16.4	3.1	4.3
1947	100	13.8	26.5	34.5	3.1	14.7	2.1	5.3
1948	100	15.4	26.6	33.1	1.5	16.0	1.2	6.2
1949	100	16.3	24.1	33.8	1.4	17.7	1.6	5.1
1949—First quarter	100	14.1	25.1	34.8	1.3	18.3	1.6	4.9
Second quarter	100	16.9	21.9	35.2	1.4	17.5	1.5	5.5
Third quarter	100	17.6	24.9	31.3	1.3	17.9	1.7	5.3
Fourth quarter	100	16.8	24.7	33.4	1.5	17.0	1.7	4.9
1950—First quarter	100	16.7	26.9	33.1	1.5	16.8	1.5	3.5
Second quarter	100	21.2	26.5	30.4	1.4	15.1	1.5	3.8

[1] Includes Newfoundland and Labrador.

[2] Turkey is included with ERP countries and excluded from Asia. Exports to Germany in the postwar period relate almost wholly to exports to the three western zones.

[3] Not available.

NOTE.—Data in this table cover all merchandise, including reexports, shipped from the United States customs area to foreign countries including, in 1947 to 1950, goods destined to United States armed forces abroad for distribution in occupied areas as civilian supplies.

Beginning in July 1950 data by areas exclude "special category" exports which are included in total exports.

Detail will not necessarily add to totals because of rounding.

Source: U. S. Department of Commerce.

TABLE 27.—*United States general merchandise imports, by area, 1936–38 quarterly average and 1947–50*

Period	Total general imports	Canada [1]	Other Western Hemisphere	ERP [2] countries	Other Europe	Asia [2]	Australia and Oceania	Africa
	Millions of dollars							
Quarterly average:								
1936–38	622	88	143	152	30	183	10	17
1947	1,439	282	568	174	45	249	39	82
1948	1,781	398	627	244	49	324	41	98
1949	1,656	388	611	211	35	296	31	84
1949—First quarter	1,789	378	662	250	34	328	34	103
Second quarter	1,601	383	580	190	33	302	39	74
Third quarter	1,478	348	562	175	33	265	22	72
Fourth quarter	1,755	442	641	228	36	288	31	89
1950—First quarter	1,888	404	726	240	45	302	48	123
Second quarter	1,928	478	643	243	46	363	52	103
Third quarter	795	(3)	(3)	(3)	(3)	(3)	(3)	(3)
	Percentage of total							
Quarterly average:								
1936–38	100	14.1	23.0	24.4	4.8	29.4	1.6	2.7
1947	100	19.6	39.5	12.1	3.1	17.3	2.7	5.7
1948	100	22.3	35.2	13.7	2.8	18.2	2.3	5.5
1949	100	23.4	36.9	12.7	2.1	17.9	1.9	5.1
1949—First quarter	100	21.1	37.0	14.0	1.9	18.3	1.9	5.8
Second quarter	100	23.9	36.2	11.8	2.1	18.9	2.4	4.6
Third quarter	100	23.5	38.0	11.9	2.2	17.9	1.5	4.9
Fourth quarter	100	25.2	36.5	13.0	2.2	16.4	1.8	5.1
1950—First quarter	100	21.4	38.5	12.7	2.4	16.0	2.5	6.5
Second quarter	100	24.8	33.4	12.6	2.4	18.8	2.7	5.3

[1] Includes Newfoundland and Labrador.

[2] Turkey is included with ERP countries and excluded from Asia. Imports from Germany in the postwar period relate almost wholly to imports from the three western zones.

[3] Not available.

NOTE.—Data in this table cover all merchandise received in the United States customs area from foreign countries. General imports include merchandise entered immediately upon arrival into merchandising channels, plus entries into bonded customs warehouses.

Detail will not necessarily add to totals because of rounding.

Source: U. S. Department of Commerce.

TABLE 28.—*Indexes of quantity and unit value of United States domestic merchandise exports, by economic class, 1936–38 quarterly average and 1947–50*

[1936–38=100]

Period	Total domestic exports	Crude materials	Crude foodstuffs	Manufactured foodstuffs	Semimanufactures	Finished manufactures
	Quantity indexes					
Quarterly average:						
1936–38	100	100	100	100	100	100
1947	275	123	397	478	203	332
1948	214	100	362	350	144	257
1949	221	126	435	297	150	253
1949—First quarter	232	129	495	317	162	264
Second quarter	243	155	438	366	167	268
Third quarter	200	93	439	235	144	236
Fourth quarter	200	125	368	271	123	228
1950—First quarter	182	125	287	210	120	210
Second quarter	194	143	277	250	126	220
Third quarter:						
July	178	89	248	260	117	221
August	173	114	266	188	115	204
	Unit value indexes					
Quarterly average:						
1936–38	100	100	100	100	100	100
1947	188	195	248	218	169	182
1948	200	223	255	223	184	193
1949	185	212	225	177	174	181
1949—First quarter	193	216	233	191	184	190
Second quarter	188	212	233	175	179	186
Third quarter	182	212	216	175	165	181
Fourth quarter	179	208	214	163	164	177
1950—First quarter	177	206	202	160	164	178
Second quarter	174	212	190	146	166	174
Third quarter:						
July	176	217	190	152	166	175
August	177	222	187	164	170	174

NOTE.—The indexes of quantity are a measure of the volume of trade after the influence on value of changes in average prices has been eliminated. The indexes of unit value provide a measure of change in the average prices at which trade transactions are reported in official foreign trade statistics, including change in average prices that result from changes in the commodity composition of trade. The indexes for 1947 to 1950 are based on data which include goods destined to the United States armed forces abroad for distribution to civilians in occupied areas.

Source: U. S. Department of Commerce.

TABLE 29.—*Indexes of quantity and unit value of United States merchandise imports for consumption, by economic class, 1936–38 quarterly average and 1947–50*

[1936–38=100]

Period	Total imports for consumption	Crude materials	Crude foodstuffs	Manufactured foodstuffs	Semimanufactures	Finished manufactures
	Quantity indexes					
Quarterly average:						
1936–38	100	100	100	100	100	100
1947	108	129	96	83	130	84
1948	123	139	109	91	149	103
1949	120	125	119	97	143	101
1949—First quarter	121	129	121	93	140	105
Second quarter	116	118	116	105	129	98
Third quarter	111	116	104	100	130	94
Fourth quarter	131	136	135	88	169	106
1950—First quarter	137	152	121	98	188	107
Second quarter	135	139	94	113	213	119
Third quarter:						
July	143	141	119	129	206	118
August	161	166	132	163	224	125
	Unit value indexes					
Quarterly average:						
1936–38	100	100	100	100	100	100
1947	213	180	311	208	191	245
1948	235	203	343	212	217	266
1949	224	195	330	[illegible]	198	258
1949—First quarter	235	206	330	[illegible]	225	267
Second quarter	224	200	306	[illegible]	208	261
Third quarter	220	193	324	[illegible]	187	258
Fourth quarter	217	185	352	201	180	249
1950—First quarter	223	185	410	199	176	245
Second quarter	229	194	433	199	179	248
Third quarter:						
July	240	206	458	204	188	253
August	247	212	485	202	196	252

NOTE.—The indexes of quantity are a measure of the volume of trade after the influence on value of changes in average prices has been eliminated. The indexes of unit value provide a measure of change in the average prices at which trade transactions are reported in official foreign trade statistics, including changes in average prices that result from changes in the commodity composition of trade.

Source: U. S. Department of Commerce.

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